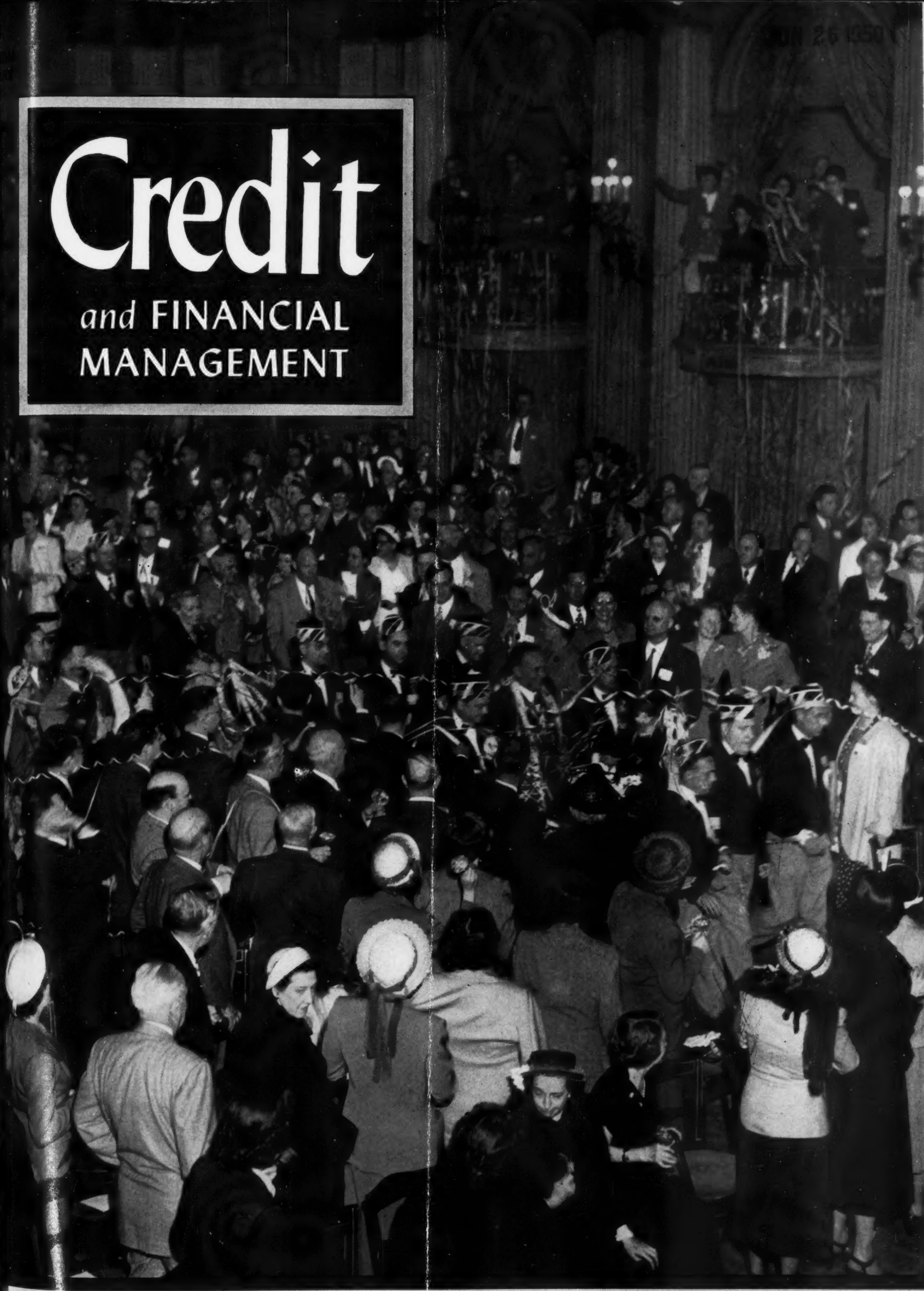
Credit
and FINANCIAL MANAGEMENT

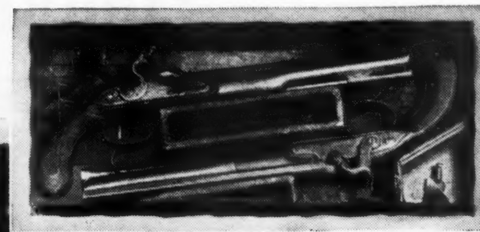


June 1950

Famous American Homes

BELVIDERE

OUTPOST IN THE WILDERNESS



History records the tragedy caused by this brace of pistols

Belvidere near Wellsville, N.Y., has twenty-six rooms and thirteen fireplaces

Shaving mirror belonged to doctor who attended Hamilton in famous duel

INDIANS and wild animals populated the wilderness in southwestern New York where Philip Church brought his bride in 1805. After studying law in this country and England, he had served as secretary and aide-de-camp to his uncle, Alexander Hamilton. Philip's wife was the former Anna Matilda Stewart of Philadelphia, daughter of General Walter Stewart. Though the rugged frontier life was a test of the young couple's fortitude, they quickly adapted themselves to the new conditions and played a prominent part in the region's growth and development.

The property, a vast 100,000-acre tract originally owned by Robert Morris, had been acquired in 1800 by Philip's father, John Barker Church, who gave his son half interest in return for assuming its administration. First making an exploratory expedition, Philip chose the site for his farm and future home on the banks of the Genesee River. Here a sawmill and gristmill were built and then the home where he brought his bride. It was known as the White House because it was the only painted structure in western New York.

In 1810, Belvidere, the Churches' permanent home, was completed. Designed by Benjamin Latrobe, it was built of stones from a nearby creek and bricks made on the premises. Privately owned today, it is one of this country's purest examples of classic revival architecture.

The Churches maintained friendly relations with the neighboring Indians and always set aside choice farm lands for their use. Each spring the tribesmen planted corn at Belvidere, returning in the fall for the harvest. To Mrs. Church they gave the name Ye-nun-ke-a-wa, meaning "The first white woman who has come" and in Philip's absence during the war of 1812 they offered to place a guard around the house for her protection from enemy marauders.

Until fairly recent years a set of dueling pistols were among Belvidere's prized mementos. Originally belonging to John Barker Church, they were used on three occasions in which the Churches were more or less directly involved. The first was a duel between John Church and Aaron Burr, in which neither participant was injured. The second was the duel in which Philip acted as second to Alexander Hamilton's son Philip when young Hamilton was killed. The third, fought on the same spot, was the famous Hamilton-Burr duel in which Hamilton was fatally wounded.

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Editorial

The World's Worst Fakers

THOSE who are directing the Communist party always promise a Utopia for the working people—come the Revolution. The fallacy and dishonesty of such promises has long since been demonstrated. The sharing of poverty never makes for a higher standard of living and poverty, as well as the loss of all freedoms, is the price paid for a Communistic regime. Under these circumstances life itself is not worth while and is indeed uncertain, with the Gestapo breathing down your neck, the firing squad, the concentration camps and the Siberian wastes ready to receive you the moment you open your mouth or squint suspiciously at a Communist leader.

It seems strange that so many people who join the Reds do not take a better look at their so-called leaders. Are the leaders willing to endure the privations and make the sacrifices they contend are necessary and which they ask of their followers? Do they believe in destroying wealth when it comes to their own comfort?

Can you imagine a palace much better or more comfortable than that of the Kremlin? Are there any better vacationing resorts than those that Stalin visits every time he tries to run away from his own plotting and planning? Even in our own country they rent one of the most palatial homes in the nation for their summer sojourns. They rail and rant about the accumulation of wealth, but they seem to enjoy it thoroughly. The suffering is intended for the masses, not for those who lead the masses. They want the ease and luxury of the life of ancient royalty. Their wines are the choicest and their foods the very best. They bask in luxury in their 90-acre palace grounds.

If you really think it over, you can reach only one conclusion. They are the world's worst fakers. They qualify on all counts for this title. At one time a faker was considered a thief and certainly they would be guilty under this definition. Another definition is that a faker is a fraud and a pretender. Surely they qualify under this definition. The world has had many fakers in the past but none who merit the title more than those in the Kremlin. The same name also may be applied to all of their generals, lieutenants and representatives who deny themselves no luxuries but who are doing their best to destroy our way of life and throw the world back into the Dark Ages.

Henry H. Heimann

HENRY H. HEIMANN,
EXECUTIVE MANAGER

COMING EVENTS

1950

◆

August 6-19
Graduate School
Dartmouth College

◆

October 11
Illinois State
Conference

◆

October 12-14
All-South Conference
Shreveport

◆

October 19-21
Northeast Conference
New York

◆

October 20-21
Ohio Valley Regional
Credit Conference
Louisville, Ky.

◆

October 26-27
Tri-State Conference
Waterloo, Iowa

Credit and FINANCIAL MANAGEMENT

JUNE, 1950

Official Publication of the
National Association of Credit Men

VOLUME 52, NUMBER 6

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(Cover picture by Weaver, Los Angeles)

* Reprints of addresses delivered during the 54th annual Credit Congress in Los Angeles, California, May 14 to 19.

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CCA

Published on the 15th of each month by the National Association of Credit Men, 1309 Noble Street, Philadelphia 23, Pennsylvania. Entered as second class matter December 22, 1933, at the Post Office at Philadelphia, Pa., under the act of March 3, 1879. Subscription price $3.00 a year, 25c per copy; Canada, $3.50; all other countries, $4.00 postpaid.

Credit Abuses

—and Socialistic Trends

by W. C. MULLENDORE

President, Southern California Edison Company, Los Angeles

"WE, THE PEOPLE" of the U.S.A. have lost much of our liberty in the first half of the 20th Century. Daily we are losing more of it, as the strangling tentacles of the octopus of government insidiously extend their relentless grip around and through the fabric of our once free economic system. The peril is enhanced a thousandfold because the victims are unaware. They do not know that self-reliance is the essence of freedom. They seek to escape the hazards, the worries and the work which are inevitable in life under freedom as well as under slavery. Those who seek to extend the powers of government deceitfully promise relief from these burdens of freedom.

THE citizens should know that the growth of the field of dependence upon government means the shrinkage of the areas of independence. But the disguises worn by government power are beautiful and alluring. They bear names which are both fair and attractive. In promoting government aid, an effort is usually made to enlist the spiritual qualities of mercy, compassion and human sympathy. The offers of paternalistic care and aid from government appeal to weaknesses in human nature which were developed through many centuries of slavery and serfdom under powerful rulers, both cruel and beneficent — kings, absolute monarchs, feudal overlords, protectors, fuehrers, dictators, including many regimes headed by tyrannical rulers chosen by popular vote.

The means and instruments available to those who seek to increase the power of the government over the people, subtly and under the fair disguise of solicitude for the ills and cares of mankind, are almost infinite in variety, but an essential element of most of them is the power to create debt to be paid by the people. Through all the schemes and plans for gaining control over the people by increasing their dependence upon government, there runs like an evil thread the abuse of the power of government over money and credit. It is for this reason that in the subject of this address, I have coupled the abuse of credit with the socialist trend.

THE two subversive ends which, through abuse and misuse, credit has been made to serve, and which I want to emphasize are: (1) Destruction of the free market (or, if you prefer, the free exchange or free enterprise system) through creating an unbearable instability or unbalance within that system; and (2) the use of Government debt or credit, grants and gifts, often disguised as a loan, or the guaranty of a loan, to the citizen, thus creating an ever-increasing dependency of the citizen upon Government. I repeat: The destruction of balance, and the destruction of self-reliance—those are the two effects of the abuse of credit, which I wish briefly to discuss with you.

Let me first state a few basic facts or principles upon which the case I am presenting is built:

Balance or equilibrium is just as essential to the continued operation of a free market as it is to the continued flight of an airplane. Serious and continued unbalance will cause a bust-up for each. And, to pursue the analogy a little further, balance may be lost in the free market through an over-loading of one sector or compartment of the exchange system which is not properly compensated for by adjustment elsewhere.

A free or voluntary economic society may properly be designated also as a free exchange or free market society. That is, it is an economic order which depends for its continued operation upon the voluntary exchange of goods and services directed and controlled through prices determined by supply and demand, as contrasted with distribution forced by law, and determined by arbitrary authority. One of the instruments or media facilitating the voluntary exchange of goods and services is money, and another is credit.

SOUND money and sound credit have some essential characteristics in common. Both represent purchasing-power, and both should rep-

One of the highlights of the Los Angeles convention came on the Wednesday morning program. After Benno M. Brink, Bankruptcy Referee in the Federal Court in Los Angeles, had presented some valuable hints to credit men as to how to avoid the losses that seem sure in the bankruptcy court and Dr. Kenneth McFarland of Topeka, Kansas, had enthused the audience that packed the Biltmore ballroom with an inspiring address on the use and abuse of public relations in business, the session closed with an address by Mr. Mullendore, which was considered by many of the delegates as the outstanding feature of the excellent convention program. In order that every member of the Association may share in the thoughts presented by Mr. Mullendore, we present his address in full.

resent not mere hope or speculation, but real value already in existence—a value which normally can be transferred from ownership to ownership or from person to person, through the use of the written or other symbols and tokens which can be readily transferred. Since these money and credit symbols give the bearer command over goods in the market, it is natural that human beings (seeking the easier way) are tempted to, and do, counterfeit them, sometimes through illegal processes and sometimes through the capture and misuse of the *legal* processes—even of democracies. Credit which is extended on faith or on the basis of the representation of the debtor of his ability to repay, is subject to the further hazards of over-optimism, or of deceit, or fraud.

The very important characteristic of a credit, as distinguished from a cash or barter transaction, is that it is a delayed or only half-completed exchange. The creditor gives up to the debtor present existing value in exchange for the promise of the debtor to return it or its equivalent in value later, usually plus an added amount for its loan or use during the agreed period of time. It is the promise of the debtor, sometimes secured and sometimes unsecured by the pledge of property, which thus obtains for him, or it, some current purchasing-power which he did not previously possess.

Now, as we have already indicated, the older theory of a sound credit transaction was that the creditor must transfer to the debtor real and valid previously-created exchangeable value or purchasing-power. When this was true, the credit transaction did not create but only transferred purchasing power—a loan of it from the creditor to the debtor. The debtor might pledge his future earnings to the creditor but by so doing, he did not as of the moment of the creation of the debt, create any new purchasing-power.

BUT a new and mighty addition has been made to this credit game. I refer to the magic of modern credit practice, whereby *new* purchasing-power is created by the credit transaction itself. That is, coincidentally with the creation of the debt, at the very moment the creditor-debtor relationship is established, a new supply of purchasing-power is created—ready, able and willing to command for its possessor, goods and services from the market.

Thus emerges the potential for dangerous disequilibrium. So long as no new purchasing power could be added to the demand side of the market without creating some new value to balance that demand, the free market was in no danger from this source. But when, through the legerdemain of credit, Government's need for funds, or the citizen's need, desires or optimism, can be transmuted into new demand in the market, we have added immeasurably to the demand side of our economic system without compensating addition to the supply side.

As the weight and volume of this kind of demand makes itself felt in the market, it brings into operation two economic forces or phenomena through which the market endeavors to restore its required balance. One of these forces is an increased supply stimulated by this increase of purchasing-power, and the other is an increase of price, until price reaches the point where the demand is absorbed by supply.

I HAVE thus described the reaction in the market-place caused by that economic disease called inflation. Whether it be through the addition of unsound money or unsound credit, the new purchasing-power resulting therefrom will have the two-fold effect of calling forth an additional supply of goods and services and of depreciating the value of the medium. Particularly in its early stages, inflation is insidious and, depending upon the condition of the market, its effects may be concealed and hard to detect, but those two effects of increased supply and depreciation in value of the monetary unit will always be there. The fact that as of a given moment, the effect may be so slight as to defy analysis cannot change the certainty that it exists.

Now to come back to what is happening, and has been happening in the field of credit. As you are only too well aware, Government has been the chief creator of new and fresh purchasing power by the simple process of transmuting its promise to pay, or its guarantee of some citizen's promise to pay, into a new supply of purchasing power. Thus, in recent years, there has been added to the demand side of the demand-supply equation an enormous and wholly uncompensated amount of purchasing-power. An all but overwhelming new supply of purchasing-power in the form of redeemable bonds, cash and bank deposits was created during the War.

During the War period, resort was had to the force of law, i.e., to rationing and price control as a means of postponing the inevitable effects of inflation in unbalancing supply and demand in the market. But with the end of most of the rationing and price control laws, this vast new supply of purchasing power (often referred to as new money supply or as addition to savings) began to flood into the market-place. The result is only too well-known: A large increase of production, i.e., of supply; a big and permanent boost in the level of prices, i.e., depreciation in the value of the monetary unit which is used as the medium of exchange and designated as the dollar.

In the April issue of Credit and Financial Management there appears an article by Mr. E. V. Grisvard entitled "In the State of Washington Trust Receipts Work!". It was a most interesting and well written article, but unfortunately had nothing to do with trust receipts. The head should have read "In the State of Washington Trust *Mortgages* Work!". The Editors regret allowing this error to get by.

FOR the sake of emphasis, and because it is most important, let us look at the manipulation of this war debt from another angle. We tend to forget or overlook the vital point that the war debt represents wealth lost, destroyed, burned up, blown away—sunk without a trace. The billions of man-hours of labor, the millions of tons of war equipment and material produced in the thousands of factories and transported over the million of miles to get it to the place of destruction—all this effort and product of more than 25 million workers and of millions of machines and immeasurable mechanical and electrical energy—all were thrown into the fires and the bottomless pit of war. And all we had left was the war debt, and unlimited obligations to our veterans and apparently also, to hundreds of millions of people in foreign countries.

Now, what have we done with that war debt? The answer to that question presents one of the strangest and most interesting economic phenomena which the human mind has ever produced. Talk about magic!—this transformation of the war debt is magic extraordinary and on the grand scale. For this is what we did: We transformed the war debt from a certain loss to an apparent gain. In the unofficial national balance sheet, which exists in the minds of the people, we transferred that debt from the debit side to the credit side. Thereafter, instead of referring to it or treating it as wealth lost, we treated this gigantic sum as "savings"—as wealth gained, saved up and accumulated during the war years, and after the war the people who had accumulated evidences of this debt which, as citizens of the United States they owed, these same people proceeded to go into the market and to spend again the proceeds of their own debt.

No wonder this miracle is hard to understand. It is fantastic, and unbelievable, but it has happened. We capitalized our war losses, we issued government bonds to cover them, we ran the bonds through the banks, and presto, there it was!—no longer debt but cash, bank deposits, legal tender dollars, "the best money in the world."

Is it any wonder that thousands and millions of dupes can be found who fall for Ponzi schemes and for the compensated economy ideas of Keynes, Hanson, Keyserling and other various funny-money schools? Is it any wonder that men seriously contend that a nation can spend itself rich? Is it any wonder that a President of the United States, whose business experience has been confined to failing in a haberdashery store, should believe that the war made us prosperous?

THE delusion of prosperity created by this inflation has by no means been confined to the President of the United States and his economic advisers, nor to other uninformed citizens. The business leaders and managers and their economists also have been endorsing and promoting the idea that this prosperity is real and will continue. The believers in and converts to the new era philosophy in the business world are numerous and increasing just as in the twenties before the rude awakening of 1929. We hear from some prominent business economists almost daily that there is no reason to expect any very serious or prolonged readjustment; that it does appear that we have learned how to manage credit and debt and fiscal policies so as to avoid any more such periods as the thirteen serious depressions before the New Deal; that, in fact, whether we like it or not, it does appear that this managed money system works.

Many dangerous and unfortunate results may flow from these widespread delusions, but in particular there are some by-products which are already apparent, and which we must at least mention.

As in ills of the body, so in economic ills, a wrong diagnosis leads to the wrong treatment and hence to additional complications. The erroneous diagnosis of this period as one of prosperity is bolstered and supported by statistics showing that we now have the biggest national product, highest national income and profits, biggest volume of trade and production in our history. And in addition, it is emphasized that we have full employment and a very satisfactory volume of savings. Anyone who dares question the soundness or continuance of the prosperity is at once overwhelmed with these statistics which are held to justify every optimistic conclusion. All of this would seem to prove the theory that the more we spend the more we have.

SOME of the members of the skeptical school inquire: What is happening that would not be equally bound to happen if we were in the midst of a bad inflation? Would inflation also not cause a spurt in productivity, in income, earnings, employment and even in savings? What indeed is occurring in our national economy which would not occur in a smaller community if a successful counterfeiter should rapidly distribute quantities of new purchasing power in the community? But such questions are dismissed as non-constructive, and we must be constructive.

Thus we find that error is compounded by supporting the case for more inflation through assuming that the results thus far have been beneficial. An example is at hand in the credit field in the answer given to the question as to whether consumer credit has been over-extended? "No," says the optimist, "because look at the volume of trade and business, and you will find that consumer credit still bears a reasonable proportion to that volume as well as to the amount of disposable individual income." This answer is the equivalent of that of the spendthrift who argues that his personal debt is not excessive because it still bears a reasonable proportion to the amount he is spending. The more the people spend, the greater the volume of money income, of gross national product measured in money, of savings in money, etc. The more credit is expanded, the more people spend, and hence we justify the expansion

of credit by the statistics which it feeds.

Time was when it was thought to be sound practice to curtail credit expansion during a boom, on the theory that the customers would need their credit reserves in hard times or when money became "tight," more than in boom times. But like so many rules that once made sense, that one is now in the reactionary or old-fashioned class. Now, when people run out of cash to keep up the volume of purchases to the boom level, we see that credit is liberalized.

ONE result of this kind of reasoning is that Labor Leaders say: "That goes for us too. The time to raise wages is during a boom so that purchasing-power will be maintained." Also, the Labor Leaders are very happy to concur in the conclusion that this is the period of highest prosperity in the country's history. It makes a wonderful argument for higher wages, pensions and other benefits to the end that labor may get its share of the increasing prosperity.

Government agencies, Federal, State and local also want to share and so not only taxes but the government debts are increased in order that all may live up to this higher standard made available for us by the wonderful prosperity created out of the unprecedented loss, destruction and waste of war.

And then there are our poverty-stricken relatives, throughout the world, —about a billion of them. They, too, are glad to join in the chorus about the prosperity which reigns in the land of Uncle Sam. And it takes billions more for them to live up to the hopes and expectations aroused and cultivated by their rich Uncle, and his generous international do-gooders.

Yes, there are many by-products of easy credit and a money supply manufactured by the misuse and abuse of credit, public and private.

NOW, I want to return to the destruction of self-reliance through "easy" credit.

The dependence upon credit, like taking dope, tends to grow. In the early days of the New Deal, the President of the United States, in one of his famous fireside chats, broadcast an invitation to any citizen who was in distress because of a debt on his home or farm to write to him, the President of the United States at the White House, Washington, D. C. Thus, the Federal Government appeared in the role of the fond papa or guardian. The individual citizen was invited to turn to the President of the United States personally and to place his burden upon the doorstep of the White House. This was a return to a concept of Government as the lord of the manor, or as the master in the big house, to whom the subject could turn for relief in time of trouble.

When the President broadcast his invitation, a sigh of relief and a wave of gratitude swept the land. At least, here was an Uncle Sam, personalized and personified—a real, warm-hearted, generous human being, dealing directly with the individual citizen in distress. "Now," said the people, "we have a President of the United States who knows his duty. We have a great leader in an hour of darkness and despair."

Is it a cause for wonder that, in the midst of the chorus of approval, no voice could be heard in warning that "he whose livelihood depends upon another's bread must expect sooner or later to do that other's bidding?" The Supreme Court of the United States was later to say (Wichard v. Filburn, 317 U.S. 111, October, 1942): "It is hardly lack of due process for the Government to regulate that which it subsidizes."

DEPENDENCY upon Government credit grew rapidly, once the minds of millions of people were turned from devising plans for self-help to schemes for getting loans or credit or other economic aid from Government. From rescue operations, from granting loans for emergency aid, the power and responsibility of the Federal Government was rapidly expanded to making loans and grants as measures for unemployment relief (1) to local governments for public works projects of all kinds, some useful, such as highways and public toilets, and many merely of the make-work variety; (2) to farmers for all kinds of purposes; (3) to home-owners for repairs and for building new homes; (4) to housing authorities and river valley authorities and a variety of authorities; (5) to rural electrication cooperatives, to consumer cooperatives and a variety of cooperatives; (6) to tenant farmers for purchasing both farms and the equipment with which to farm; and (7) through the underwriting or guaranteeing of credit, eventually the Federal Government became the biggest builder of homes for owning as well as renting.

The misuse of Federal credit to sustain the price level of farm products — through loans which were really purchases of farm surpluses—eventually became one of the biggest and most troublesome interventions of all. Witness the $5 billions of farm products now in Government storage.

Now, high policy calls for creation of a new group of dependents upon Government, through loans to business—big and small. If the individual businessmen can be brought into the fold, the field will have been covered.

THROUGH loans to foreign countries, control has been established over exports and imports, and the exporter and importer is chiefly concerned with the allocation and spending of Government appropriations.

Through all this expansion of credit there runs this clear contribution to the growth of Socialism—an expanding control over the lives of the people through a constant growth of their dependency upon Government for support, for guidance and hence direction of their affairs.

Not only has the "common man" come to believe in Santa Claus—the President of the United States believes that he is Santa Claus, in charge of a flock of millions of geese that lay golden eggs without effort and without limit.

Not only have the people lost much of their self-reliance, they have also come to look upon the necessity to work as a curse. The prevailing philosophy is that we live only when we are off the job, and that the working-hours must be subtracted from life. We no longer live to work, but to play—to indulge our appetites and, mayhap, our passions.

The most over-crowded profession

(*Continued on page 48*)

In chapters one and two of this excellent series we found that the credit decision depends on the answer to one crucial question. Now we must ask ourselves

WHAT IS THE QUESTION?

by HELEN M. SOMMERS

Credit Manager, Trojan Hosiery Mills, Indianapolis

ANYBODY can ask questions. If he can give his voice an upward inflection and if he knows words like *how* and *why* he can ask questions to an extent limited only by his own and other people's endurance. Some individuals in fact do. But their questions are not always paid off with information useful to them. For if you want to ask fruitful questions you first have to define clearly what it is you want to know. It is one thing to throw out an interrogation mark in the general direction of a subject and quite another thing to focus it upon a precise point—one thing to shoot at random toward the South or West and another to aim closely enough to hit the rabbit in the Southwest corner of the cornfield.

A young child asks random questions. He is prompted by a consuming urge to know. But the information he wants is so all-embracing and his experience so limited that he is incapable of refining his questions or of making any precise statements of what he wants to know. He finds that his *why's* and *whatsit's* bring responses of some kind but those responses do not satisfy him because he is seeking information that he is unable to express in his question. Therefore all he can do is whale away at random with more *why's*. Frequently when he uses that word he is not inquiring about cause-effect at all; he is saying, "Tell me more. I don't understand this thing and I don't understand what you are saying about it."

At the more complicated level of adult life we are frequently as vague about what we want to know as the child is at his level. And when we are vague our questioning, like his, must be more or less at random, with random results. For in such cases if we do stumble upon significant information we fail to recognize it as an answer because we have not precisely formulated our question.

IF WE want precise answers we must ask precise questions. This applies not only to the questions which we put to others, but in particular to the ones which we put to ourselves. For usually we question others or seek information through other means from the world about us only in order to answer larger questions which we have put to ourselves. It is these in particular that must be formulated most precisely, else the questions that stem from them to the world about us are apt to be, like those of the child, a random, crude sort of quizzing all around Robin Hood's barn.

Before a scientist embarks on a research project or conducts an experiment he first states the problem in clear and precise language. It is the formulation of this clearly stated question that constitutes the creative phase of a scientist's work. The problem is well on its way to solution as soon as this has been done. For the question, when so formulated, suggests the direction in which the research is to be conducted and the specific conditions under which the experiment is to be made that will yield the facts wanted.

As Dr. Johnson says, "Any scientific worker of experience knows that by far the most important step toward the solution of a laboratory problem lies in stating the problem in such a way as to suggest a fruitful attack on it."*

THE first chapter of this series pointed out that the questions which we use in appraising a customer's credit fall into three general classes.

(1) The basic or crucial questions which we must ask ourselves before we can make a decision to accept or reject credit.

(2) Information - seeking ques-

* Wendell Johnson, *People in Quandaries*, Harper & Bros. 1946

tions which we direct to the world about us and which we ask others, including the customer, credit agencies, other creditors, banks, etc., in order to answer (1).

(3) Further questions which we ask ourselves and others in order critically to evaluate the validity and acceptability of the information obtained by (2) before we accept it as an answer to (1).

It is with the first class of questions that this chapter will deal. Applying scientific method we will attempt to formulate as precisely as possible the crucial question which we must answer before we accept a customer's credit and exchange goods for it. We shall attempt to pose our question so that it can be specifically answered; so that we can recognize certain information as answering it; and so that the question itself indicates the fields of investigation which we must explore in order to obtain the answer. The basic or crucial question will thus lead to an integrated system of subsidiary questions.

WHAT precisely are we getting at when we inquire if our prospective debtor - customer has been paying his bills promptly? When we inquire how long he has been in business and the general procedures by which he has been operating? When we want to know what his banker thinks of him? When we ask to see a late financial statement? When we study its ratios?

These are only the avenues by which we arrive at an answer to some central key-question. When we okay an order for shipment on credit terms or when we set up a line of credit for a customer's use, we surely have satisfied ourselves about something which we should be able to state as a meaty question or two. If we can't do that we have no way of knowing that we have the answer.

"Well," you might say, "obviously what we want to know is whether the customer's business is sound—whether his credit is good." But that is one of those Robin Hood's barn questions. It is vague. By what standards do we determine that the business *is* sound and that the credit is good? (*Was* is a more accurate term, since we can never have completely up-to-date information.) And what precisely do we mean by that *credit* that we are attempting to evaluate as good?

The term *credit,* as it is used in such a statement, labels the acceptability of a promise to pay at a later date which is offered in exchange for goods and services at a given date. Evaluating the acceptability of such a promise involves predicting the probability of its redemption, as we brought out in Chapter II. Hence the central question which we must answer has already been very broadly stated:

Is the probability that this credit-promise will be redeemed greater than the probability that it will not be?

But such a question is not at all precise and suggests no method of attacking the solution of such a problem.

IF YOU make the question specific by saying, "Will this shipment which I am authorizing be paid for when the bill becomes due?" you have narrowed it down too much, because:

(1) You cannot isolate your account from those of other creditors. Bankruptcy laws admit of no preference. If you are to be paid, the debtor must be able to pay all his debts.

(2) Payment somewhat later than due-date may be acceptable to you and to other creditors.

And of course such a question still suggests no way of solving the problem.

Nor can we state the question this way in order to hurdle objection number 1: "When this bill becomes due will this debtor pay it and all other liabilities falling due at that time?" For we have no way of answering such a question specifically. We cannot know specifically the extent of liabilities that will be due nor the amount of cash that will be available to pay them. We have only the latest balance sheet, and since that was issued many changes have taken place and will continue to take place, both in cash and in liabilities. We cannot answer such a question specifically because an event cannot be known before it has happened.

But we can predict it. And since prediction rests upon a study of trend, the following restatement refines the problem somewhat and suggests for the first time a way of approaching the solution:

If the factors that have to do with payment of this firm's liabilities continue their respective trends is it probable that this bill and all other debts then due will be paid at maturity or within an average of 30 days thereafter?

Notice that while you may be willing to have your account paid 60 days after due-date if necessary, you cannot safely assume that all other creditors will. An average of 30 days' slowness for all liabilities would include some prompt payments and some payments up to 60 or 90 days late. Insistent creditors could thus be satisfied. But *average* slowness of 60 to 90 days would ordinarily indicate possible hazardous relations with other creditors.

USUALLY, in actual credit practice, we cannot restrict our credit decisions to the consideration of one transaction. Except in those few cases where the product itself requires diversified non-repeat distribution, economical marketing implies repeat business. That calls for continuing lines of credit, to be revised periodically. And, too, the promotional investment involved in the development of newly established accounts often requires that a credit executive evaluate the acceptability of a customer's credit for a much longer period of time. Requirements in that respect vary widely in different businesses. For the purpose of this discussion we will use a six months' period.

In order to incorporate this requirement of practical credit analysis in our question we will re-word it as follows:

If the factors that have to do with payment of this firm's liabilities continue their respective trends is it probable that for the next six months all the liabilities of this business will be paid as they become due or within an average of 30 days thereafter?

But what about that vague phrase, "the factors that have to do with payments?"

The payment of a debt requires (1) someone who wants to pay it, who at the time payment is due has

(2) something with which to pay it.

At this point let us have a session with the latter problem—the wherewithal.

WHEN merchandise bills are due it takes cash to pay them. When the rent is due you can't pay it with parsnips. Employees ask for the hard cash. So does the Government. When bank loans are repaid a bank balance first has to be built up. It takes cash to make interest and amortization payments on long-term debts. Where does it all come from?

Cash in any business comes from one or more of four general sources:

(1) The owner's original investment of capital

(2) Further investment of capital

(3) Conversion of assets into cash

(4) Loans of various kinds, secured and unsecured.

Of what significance are each of these four sources of cash from a creditor's point of view?

Wise creditors are disillusioned individuals. They are familiar with the many possible slips 'twixt cup and lip. Hence in estimating a customer's probable possession of cash to pay probable liabilities at a future date, a creditor is not likely to take into consideration the possible investment of additional capital; nor lean very heavily upon the possibility of not-yet-negotiated loans. He has to base his expectations upon what is in sight. When he finds loans already a part of the financial structure of a business his interest centers upon security, interest and repayment requirements, renewal, etc.

As for the conversion of assets into cash, only part of the assets of a business are available for that purpose in the normal course of business. A going concern ordinarily cannot sell its fixtures or machinery and remain a going concern without replacing them.

THEREFORE in examining sources of cash by which the debtor will pay his maturing debts, a creditor will direct his attention to the probable rate and extent by which assets will be converted into cash in the *normal course of busness*; i.e.,

Through the sale of merchandise for cash;

Through the collection of accounts when merchandise has been sold on credit terms;

Through the collection of other receivables, such as notes;

Through the possible sale of bonds, etc., normally held for investment and reserve purposes.

If the rate and extent of such conversion has been sufficient to provide cash to meet all debts and expenses as they became due we can say that a liquid condition has been maintained. But creditors are interested in more than mere dollar to dollar conversion as it has been achieved in the past. Liquidity (availability of cash to pay debts), as a creditor is interested in it, is something that has to be predicted. It is future liquidity that will pay us and other creditors when our bills become due. Hence we must take into account also the margin of safety that will take care of ordinary business fluctuations as well as unforeseen events that might interfere with expected conversion, or might make unexpected demands upon the cash realized by such conversion. That margin is called *working capital.*

The importance of studying the safeguarding function of working capital when we are trying to predict future liquidity can be illustrated if we look into John Jones' business.

JOHN JONES goes into the ready-to-wear business. He uses $4,000 of his $5,000 savings account to buy a predecessor business, consisting of fixtures and equipment valued at $2,000 and a somewhat run-down stock of merchandise valued at $2,000. The other $1,000 he deposits in the name of the business to be used for running expenses and a back-log to take care of unexpected needs. His balance sheet looks like this:

Cash in Bank	$1,000		
Merchandise	2,000		
Fixtures	2,000	Net Worth	$5,000

Jones' invested capital, then, has been divided as follows: fixed capital, $2,000, represented by fixtures; and working capital, $3,000, represented by cash and merchandise. Any cash needs of the business must come out of the working capital, since the fixtures cannot be sold if the firm is to continue in business.

Now Jones recognizes that the stock which he bought is somewhat seedy and unbalanced, so he fills it in by purchasing an additional $2,000 in merchandise bought on 30 day terms. His balance sheet now looks like this:

Cash in Bank	$1,000	Accounts	
Merchandise	4,000	Payable	$2,000
Fixtures	2,000	Net Worth	5,000

His working capital is still $3,000 (the $1,000 cash and his original stock purchase, $2,000). But his current assets are now $5,000 and he owes $2,000 which he has to pay in 30 days.

He plans to sell his goods on a 33⅓% gross-profit margin. That gross profit he estimates will pay his running expenses and his salary with perhaps a small net profit left. If his estimates work out correctly, out of every dollar of sales 66⅔¢ will be available to pay merchandise creditors. He can, therefore, pay at maturity the $2,000 he owes and still have his cash back-log *if* he sells $2,000 worth of merchandise for $3,000 in 30 days; if his running expenses and salary do not exceed $1,000; and if no unforeseen circumstances demand any unusual cash outlays in that period.

On the other hand, if his sales in that month do not gross at least $3,000 on a 33⅓% margin; or if they do, but his expenses exceed that 33⅓%; or if there is some unusual cash drain on the business, he will have to dip into his $1,000 cash. If too many such exigencies occur for too long a period of time it will be absorbed and bills can no longer be paid as they mature.

NOW what is the function of the remainder of the working capital—that part represented by the original purchase of $2,000 worth of merchandise from his predecessor?

Let us assume that Jones does actually need $4,000 worth of merchandise in his store in order to carry a well-balanced stock, and that he actually can sell only $2,000 worth of merchandise for $3,000 in any one month. If he has to buy on 30 day terms then he could not ask his supplier to carry him for the full $4,000 because he would not liquidate his stock fast enough to pay

more than $2,000 to his merchandise creditors in 30 days. Consequently Jones' investment of his own $2,000 in that original stock would have been a necessity in any case.

Now suppose Jones sold all of his merchandise on 30 day terms instead of for cash. Let us assume that he still wants to maintain his $1,000 cash safety-margin against contingencies. He will need enough additional working capital, then, to be able to pay (1) his merchandise creditors at the end of the first 30 days, plus (2) his running expenses during that 30 days, for he will not have converted any of his merchandise into cash at the end of that first 30 days. That means, then, that above what he has already invested he would have to have an additional $3,000 in working capital (the amount of one month's sales), assuming that his collections came in promptly as they matured in the second month. If the collection period is 45 days instead of 30, one-and-a-half times that amount would be required.

Jones' working capital, then, should cover

(1) Investment in that part of the merchandise stock which cannot be sold during the period represented by terms of purchase, plus
(2) The amount required to carry him while his receivables are being paid, and
(3) Cash back-log for emergencies and contingencies such as an unusual slump in sales, unusual slowness in collecting, expenses beyond his gross profit, markdowns, operating losses and emergencies not covered by insurance.

These three required components of working capital of course become merged with and indistinguishable from those assets financed by merchandise and bank creditors, and are recognized only on the balance sheet as excess of current assets over current liabilities.

But it is the extent of that excess and the composition of it (preponderance of cash, or of merchandise and/or receivables) that indicates the margin of safety to creditors and owners against fluctuations of trading as well as exigencies of all kinds.

To put it negatively, if a hypothetical business were set up so as to be able to convert its assets just rapidly enough under normal conditions to pay maturing liabilities and expenses on a dollar to dollar basis, but had no such safety-margin of working capital, any one of the occurrences enumerated under (3) would render it unable to pay its bills as they mature and a few repetitions would render it unable to pay at all.

SINCE adequate working capital then is the cushion that prevents creditors from experiencing the shock of fluctuations, losses and emergencies, it becomes necessary for them to examine its adequacy by internal and external yardsticks before they can predict future liquidity.

This involves observing the trend of increases or decreases in working capital in relation to the needs of the business; and the trend of the factors that produce those increases or decreases.

We have come a long way in formulating our crucial question:

If the following liquidity factors continue their respective trends, is it probable that this business will have the necessary cash to retire its liabilities and expenses of all kinds for the next six months as they become due or within an average of thirty days thereafter?

1. **Amount and rate of converson of trading assets in relation to maturing liabilities and expenses.**
2. **Adequacy of working capital for the needs of the business.**
3. **Increases or decreases in working capital reflected by profits, losses, withdrawals, investment in fixed assets, retirement of long-term debt.**

Observation of all these trends might seem like a large order, but actually most of this trend information is yielded by ratio analysis of successive balance sheets. In fact we will demonstrate in a later chapter that all of the ratios usually studied in such analysis are significant to creditors primarily because they throw light either upon conversion, upon the adequacy and liquidity of working capital, or upon those operating results and events that ultimately diminish or increase working capital.

BUT OUR discussion has been so preoccupied with the wherewithal that it might seem to imply that assets somehow liquidated themselves and that with the cash thus realized bills somehow paid themselves!

The most liquid condition possible never paid a bill unless some human being paid it, and that liquidity could not have been achieved except by the acts of a human being or group of them. Sometimes we become so absorbed in analyzing financial statements that we all but forget that at any given point the financial situation of a business represents the changes which certain human beings have wrought upon the invested capital in the course of transacting business, and that further changes will result from further activity of those same human beings.

It is Jones, or Jones, Smith and Brown, who invest the capital, buy the merchandise and then sell it in the hope of earning a profit. It is Jones, or his fellows, that manage (if it is managed) to convert assets into cash in time to pay for the ones that were bought on credit terms.

NOW it is essential to us that Jones *wants* to pay his bills. He could have ample cash at his disposal and still try to evade payment if he did not wish to pay.

Actually only a very minor percentage of debtors have no intention of paying at the time a debt is contracted. Not only are credit losses which result from violations of commercial fraud laws relatively low in proportion to total credit accepted, but those who are experienced in investigating and convicting such violators agree that the evidence indicates that few of them deliberately set out to defraud at the time the debt is contracted.

Those few who do must of course be eliminated at the outset of our credit investigation. For liquidity in that case is of no moment.

But an individual's intentions are something going on "inside his skin," to use one of Korzybski's phrases.* What is inside his skin cannot be directly observed. You

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* **Alfred Korzybski**, *Science and Sanity.*

Difficulties to be Faced in

FINANCING TRADE WITH JAPAN

by TOM B. COUGHRAN

Vice President, International Banking Department, Bank of America, N.T. & S.A.

TRADE with the Orient has been an important part of our way of life for the past 125 years. The industrial development of America and the world-wide spread of American Commerce have been accelerated in no small measure by our trade with the Far East. There we have found good markets for our many products and there we have found great sources of raw materials. Particularly have we in the Far West been concerned with the Far East and particularly have we been alert to the vast potentialities in that area. It is therefore only logical that we are keenly interested in stimulating the restoration of trade.

The upheaveals of many years of world war and of civil wars have reduced the present capacity and ability of some of these areas to resume their useful contributions not only to world trade itself, but also to world recovery. Some of these areas are going through the chaotic stages of all newly born nations, even as did our own United States in the Eighteenth Century. And they are going through the uncertainties and turbulence of newly-acquired independence at a time when the world itself is in great disunity and when international trade is beset with problems and obstacles.

If these areas are permitted and aided to grow in stature and in strength—if they are permitted and aided to grow into healthy, strong, independent nations—some of their strength and vigor will then flow more fully into the arteries of our commerce and industry, and the lifeblood of all world trade will be the richer.

In my business trips throughout the Far East, I have noted some bright spots in the cloudy aspect of the Orient today, many reasons for hope and even tempered optimism. In the contemporary scene, I find Japan the brightest spot of major importance in the Far East. It is this present - day Japan and its future promise that I should now like to discuss.

THE devastations of the war and the political and economic dislocations that came in its wake have made the problem of recovery a particularly difficult one in Japan. Much, surprisingly much, has however been accomplished as a result of the unanimous desire of the Japanese people to rebuild their economy, their willingness to work, and work hard, and the splendid leadership of the Supreme Commander, General MacArthur. It has been my privilege to observe at first hand some phases of this recovery as a result of my several trips to Japan, and I can assure you that it is most definite and tangible. Overall industrial activity has already reached a level nearly equal to prewar. Japanese goods are beginning to appear again in the markets of the world.

This is not to say, of course, that great problems do not yet remain to be solved. We are as anxious as the Japanese that the goal of complete self-support be reached. We, as American taxpayers, are anxious that large-scale aid shall become a thing of the past. For that day to come, Japan must regain its position as a trading nation.

FOREIGN trade is the lifeblood of Japan. To exist, it must import. It must import foodstuffs for its large, congested population. It must import raw materials to feed its industries. To exist, Japan must export. It must export machinery and finished goods in great quantities to the markets of the world.

Before the war, Japan was the leading industrial nation of the Far East. Its necessarily large imports were paid for not only by its exports of manufactured products, but also by the earnings of its large merchant fleet and by its extensive investments in the Far East. On the recovery of these elements of its economy depends the speed of its rehabilitation.

Japan is well supplied with coal, but it must reach outside for high grade coking coal and anthracite. It provides also a good market for almost all other mineral resources (such as petroleum, iron ore, tin, lead, manganese) which are so vital to its industries and in which it is deficient.

Before the war, Japan was the foremost fishing nation of the world. Because of its present reduced fishing area, as a result of having lost the Kurile Islands to Russia, much of its catch is now needed for domestic consumption, but Japanese fish products are again appearing in for-

Address delivered at the International Trade Luncheon at Los Angeles Convention.

eign markets, especially canned tuna, sardines, and crabmeat, frozen tuna, and oysters.

A REVIVAL of the Japanese merchant marine will stimulate Japanese recovery. Before the war its merchant fleet ranked third in the world—after those of England and the United States. Its present fleet operates largely in home waters, carrying heavy coastal traffic among its many ports. Less than 10 of the vessels are capable of long ocean voyages.

A revival of its shipping industry would aid its economy in several ways. As an important source of income, it would reduce Japan's normal trade deficit. In 1934, for example, the income from shipping ranked third (next to cotton textiles and raw silk) among Japan's overseas incomes. In many years, the income from shipping was greater than the amount of excess imports over exports.

The shipping industry was also a great employer. Large numbers were required to man its ships and to maintain the harbor facilities. Large numbers also were employed in its shipbuilding enterprises. The industry would play a considerable role in meeting the current problem of unemployment.

The Japanese point out that their economy would be further aided in a revival of the shipping industry by great savings in shipping costs if they were able again to carry their own goods to market and bring back their needed raw materials, dependent as the nation is on its foreign trade.

Its dependence on foreign trade is emphasized by its limited area with a large population, and by its limited natural resources and inadequate food supply. These elements accentuate its potentialities as a great trading nation, to which American exporters and importers will direct increasing attention for business expansion.

Despite the many handicaps resulting from the transitional problems of political and economic readjustments and developments, Japanese foreign trade has increased notably in recent years. Its exports increased in value from $173 million in 1947 to $511 million in 1949. Its imports grew from $526 million in 1947 to $902 million in 1949. As industrial production improves, as its overseas markets expand, and as its raw material imports increase, so will its exports grow.

THE disturbed condition of Asia is a factor in the altered pattern of Japan's postwar foreign trade. Prewar Japan drew over half of its imports from Asia, but only around one-seventh of its imports came from Asia in 1948. On the other hand, Japan took less than a quarter of its total imports from the United States before the war as against receiving two-thirds of its imports from us in 1948 and 1949.

Less than 25% of Japan's total exports went to the United States before the war. In 1946, we took 75% of Japan's exports. Reflecting both recovery in other directions and the current world dollar shortage, this percentage fell to 25% in 1948 and to 16% in 1949.

China and Kwantung accounted for over 18% of Japan's exports in prewar years and less than 2% in 1948 and 1949. On the other hand, both Indonesia and India are taking a greater proportion of Japan's exports than before the war.

Dollar-wise, Japan's exports to the United States are running at around half of prewar average, while imports range over double the value of a prewar average. Exports to the United States in 1949 totaled $82 million, as against imports of $468 million. The major portion of postwar imports from the U. S. has consisted of relief and aid goods (such as food, medicine, fertilizer, and petroleum) and raw cotton.

A year ago, a special account was established, in which the yen equivalent of the dollar cost of U. S. aid furnished to Japan is deposited. This month SCAP announced that 139,600 million yen (or $387 million) have been allocated for use out of this Counterpart Fund for the 1950-51 fiscal year. This amount supplements the 115,000 million yen (or $316 million) released from the Counterpart Fund during the 1949-50 fiscal year.

The current program provides for investment of 40 billion yen in government enterprises, 40 billion yen in private enterprise, and 50 billion yen for debt retirement. This will enable private enterprise to continue further such various programs (begun with Counterpart Funds during this last fiscal year) as power development, shipbuilding, textile manufacture and other industrial and small business programs.

The steps that have taken place in re-establishing the foreign trade of Japan since August 1947 when the first traders were admitted to the country by SCAP are quite generally known. It is therefore hardly necessary to restate them. More important to us now is the present-day picture.

JAPAN'S foreign trade is now in the process of being turned back to private hands. Exports began on a private basis at the end of last year. Imports began on a private basis four months ago.

Briefly, the new procedures for private imports operate in the following fashion: the Japanese Ministry of International Trade and Industry (MITI) announces and publishes periodically the nation's import requirements. Applications that are made for such approved imports are accepted and processed in general on a first-come-first-served basis. Thereafter, these import applications are sent to the Bank of Japan—as agents for the Foreign Exchange Control Board—to ascertain that the required allocation of foreign exchange has been made.

After the import permit has been approved, and the necessary exchange allocated, the Foreign Exchange Bank, through whom the application was originally submitted, may then issue the letter of credit to cover the import. (It should here be pointed out that prior approval of the appropriate agencies is required for imports of a special nature.)

To accelerate the development of trade the Japanese government with the approval of SCAP is currently establishing trade promotion offices in certain cities of the United States. The group which will staff the San Francisco office has just arrived. These offices will be equipped to provide complete and accurate information on Japanese products available for export and import requirements.

As a further inducement to the development of trade, the "Retention Plan" has been made operative.

This plan provides for an allocation of foreign exchange to exporters which is based on the percentage of the foreign currency values of certain types of exports. Through this allocation the exporter is entitled to acquire such exchange by the payment of yen. Thereafter he may use the foreign currency for required expenditures, but under more liberal conditions than customarily.

In instances where payment of imports is made by conversion of yen, the required foreign currency is supplied (on an approved basis) from the Foreign Exchange Control Board Accounts.

THIS briefly outlines the basic pattern as it now applies. Foreign trade with Japan is also being currently financed by several other vehicles—of which one or two may be mentioned here.

Transactions under financial and trade agreements with various countries are handled over "Administrative Accounts" and settlements are made periodically. (Among the many such financial and trade agreements are those with Argentina, Brazil, Belgium, Chile, Colombia, Finland, the French Union, Germany, Korea, Mexico, and the Philippines.)

Another vehicle of foreign trade financing is seen in the ECA purchases in Japan for export—mainly for Korea. Also may be mentioned bank financing of purchases in Japan for export shipment to the Ryukyus Islands. These payments are made from the Ryukyus dollar commercial account—that is, military government funds.

While trade between Japan and various countries is handled under trade agreements, much after the fashion of "barter trade," all trade with the United States has been handled on a cash basis and all indications are that it will be so continued.

NOW a few words on the banking picture. All foreign banks that came into Japan after the war have operated under a limited banking license granted by SCAP. In general, this license did not permit them to have direct transactions with Japanese firms or individuals.

Effective the first of this year, however, the foreign banks were granted a license from the Japanese Ministry of Finance. Nevertheless, Japanese firms and mills are still dependent almost entirely upon the Japanese banks for financing both exports and imports. All export bills in postwar Japan have to date been negotiated by or discounted with the foreign banks. On the other hand, the bulk of all import credits are handled by the Japanese banks for account of their customers. (Exceptions to this are certain commodities like cotton, which is still being purchased and financed by SCAP through the foreign banks.)

The Japanese banks request the foreign banks to issue such import credits for their account, with reimbursement over the Foreign Exchange Control Board accounts. Or the Japanese banks issue the credits themselves and request the foreign banks locally or abroad to confirm such credits.

It seems likely that this system of financing imports will be continued for some time until conditions permit the Japanese banks to establish their own bank accounts abroad and build up their good name again in foreign markets, which would then render their credits acceptable abroad, with confirmation not always being required.

The *Journal of Commerce* (New York, May 1, 1950) reports that raw cotton importation into Japan is expected to revert to private hands by July. Under the new raw cotton import formula being worked out, the necessary funds made available from GARIOA aid for purchase of American raw cotton (during the 1950-1951 U. S. fiscal year) will be placed under the control of the Japanese Foreign Exchange Control Commission.

Under this procedure (the *Journal* reports) the Commission would henceforth allocate these funds, in accordance with quarterly cotton import programs, to spinners who will receive their cotton through private importers—primarily from the United States, but also from India, Pakistan, Mexico and Egypt.

THE importance of South East Asia to Japan and also to ourselves must not be overlooked. For example, to foster trade between Japan and such countries as Thailand, India, Pakistan, and Indonesia, Army and State Department officials (according to the *Wall Street Journal* of May 5, 1950) are considering plans to boost Japan's exports by $200 million within a few years. Costing $50 million to $150 million a year at the start, the contemplated plans, as reported, are based on the idea that Southeast Asia would buy more Japanese finished goods, if these areas could produce more raw materials to sell Japan. So (the reported reasoning goes) the United States should finance the sales of Japanese machinery and equipment to those areas, to boost their raw commodity output.

Let us examine some of the practical considerations that will apply to your doing business in Japan.

1. Bulk buying by SCAP or Ministry of International Trade and Commerce is nearing the end. You will in the future be doing business with hundreds and even thousands of small trading units and traders.
2. Trade will be available to more exporters and importers in this country but competition will be keener and there will be a greater premium on knowledge of the market and all competitive factors involved.
3. Business will be conducted by letters of credit for some time to come and they should be required in all instances by American exporters. Requests for more lenient terms are, however, to be expected. The Japanese are traditionally keen traders and they will use competitive factors to force profit margins down and to bring about more lenient terms of purchase. Open account selling can be expected in due course.
4. Because of its dollar shortage Japan will confine its purchases in this country to essentials.
5. Japanese sales in this country will be competitive with our own products and will in some cases undersell them. Industry groups here will bring pressure in Washington to eliminate or minimize this competition. It remains to be seen whether Congress will be willing to view the situation in its global aspects from the standpoint of foreign trade in general and the American taxpayers, or

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The Cost of National Defense

by VICE ADMIRAL E. D. FOSTER, USN

Chief, Bureau of Material

SINCE its inception, our country has enjoyed unique geographical protection. This still applies—but not nearly to the degree it once did. In terms of time and vulnerability to attack, distances have become much smaller. As a counter measure, our defense line has been extended far beyond our shoreline.

It now appears that our economy is inextricably interwoven with the world economy and with the world leadership which has devolved upon us. Our statesmen have determined that, in the cause of freedom and peace, we must continue to retain this dominant position of leadership, and that only by these means can we safeguard the preservation of the individual rights and ideals which our forefathers fought so hard to win. Survival of our country as a free nation may well depend upon how effectively we carry out this imposed role of world leadership.

In passing, may I emphasize the fact that those of our leaders who made these decisions were not those who wear the uniforms of your Armed Forces. Such a policy is in keeping with our most sacred traditions. Our founding forefathers made certain that our Armed Forces would remain always in the hands of the people. The Constitution prescribes that the President be our Commander-in-Chief—and the President is elected by the people. In order to insure that no President would be able to use the Armed Forces to increase his power, the Constitution prescribes that the Congress determine the size of the Armed Forces, as well as the amounts of money to be spent in maintaining them. The Senate approves or disapproves the President's appointment and promotion of all officers of the Armed Services. As you also all know, the Constitution provides that Congress and Congress alone can declare war. Then too, the second amendment to the Constitution helped establish the principle that civil authority take precedence over military authority. For example, if troops are called to assist the civil authorities in disaster relief or in quelling riots, the civil governments remain in control. Only when martial law is imposed does military authority replace civil government, and this can happen only when civil authorities are unable to function. Furthermore, Congress is required by the Constitution to make the laws by which the Armed Forces are governed. Until recently these were known as the "Rules and Articles of War," and "the Articles for the Government of the Navy." Congress in Public Law 506, commonly known as the "Uniform Code of Military Justice", has just combined these laws in one code for uniform application throughout the three Services. All Service personnel are kept indoctrinated as to their contents.

Under the unification law passed in 1947, this tradition of civil control over the military is perpetuated. This law provides that the Secretary of Defense, the President's chief assistant in military matters, must be a civilian who has not served, within 10 years before his appointment, as an officer of any one of the military services. In short, you may well be assured that there is no danger of our national or foreign policies being dominated or even determined by the military. By law, by tradition, and by choice, the role of the Armed Forces is to provide the necessary strength to cloak with authority the policies enunciated by our civilian leaders, to serve and protect our people, to make possible the preservation of our way of life, and of the institutions we hold sacredly essential to our liberty and the pursuit of happiness.

WE ALL know how important to the cause of world peace are the basic morality of our aims as a nation and the productive capacity of our national economy. Dollars, dollar credits and material support are likewise vital to the success of the international commitments made by our civilian leaders. Unfortunately, we cannot hope to achieve either our national or international objectives through reliance on these strengths alone. In the social-political-economic battle raging today, those who oppose the extension of democracy and free enterprise are backing their programs with a great show of physical power. I firmly believe that they can be deterred from a program of all-encompassing aggression only by adequate support of our armed forces by the civilian economy. Those abroad who wish to destroy our ideology understand thoroughly the language of adequate preparedness. The voices of our diplomats must speak not only with conviction, but with authority as well.

I am sure you all agree that our

Armed Forces must be adequately sustained, but just what is "adequate"? The President and the Congress seem to think that for the next fiscal year, the sum of about $14 billion must be appropriated for your Armed Services. This represents a little less than one-third of our national budget, about 6¢ of each dollar of national income or a little less than $100 per person of our population. Staggering as this cost is, annual expenditures of this magnitude will not jeopardize our national solvency. We simply cannot achieve security without such a military program, and we must be willing to face the cost if we are to survive. We in the Services realize that economic strength is as essential to national security as is military strength, and that it would be folly to build military might at the cost of national solvency. I want only to emphasize a fact which I am sure weighs heavily in our high councils, and that is that too much invites economic difficulties but too little invites oblivion. The staggering price of fighting a war (in 1945 alone $80,000,000,000) reduces to comparative insignificance the expenditures required in peace to maintain the might to prevent war.

OUR military planners will doubtless continue to state what they, in view of world conditions, believe to be the minimum requirements, but, so long as present world conditions prevail, there will be much lacking in what should be provided if the national budget could but stand the strain. As I have pointed out in detail, final decision as to what should be the fineness of balance between protection and its cost to the national economy, i.e., "how much is adequate", is vested entirely in the hands of our civil leaders.

The sole justification for our Armed Forces is their ability to defend our country. To accomplish this mission, as I have previously pointed out, the Congress, your elected representatives, determine the funds considered to be adequate to accomplish that objective. The Services in turn have an obligation—in fact are required—to operate efficiently, and to extract the maximum possible protection from each appropriated dollar. The Armed Forces train our personnel to realize and appreciate these facts.

I assure you that every effort is being made by the Armed Forces to save and economize, and at the same time not jeopardize our national security. A penny-wise and pound-foolish policy in this game of very high and most vital stakes would be disastrous, but I do wish to emphasize that waste and excessive overhead are being pursued and squeezed out of the structure.

YOU have doubtless read of the activities of the Secretary of Defense's Management Committee established for the purpose of exploring the following general areas in our economy program:

- Curtailment of costly war-born spending habits.
- Elimination of excess facilities.
- Elimination of overlapping and duplication.
- Simplification of procedures.
- Better use of manpower.
- Modernization of organizational structure.
- Establishment of better management controls.

You also very likely know of our standardization and cataloging programs whereby much duplication throughout our supply and distribution system is being eliminated. I have intimate knowledge of the steps being taken to purge our distribution systems of everything not essential, and still assure adequacy of logistic support to our combat forces. In fact, the solution of our distribution problems comprises an excellent example of true unification at work. We have those responsible for the overall operation of the individual services systems participate in the formulation of unified policy. Their judgment is checked by the military men of the staff at Secretary of Defense level, and is approved or disapproved by the Munitions Board itself, the membership of which is composed of the Assistant or Under Secretaries of the three Services.

Again, we have here exemplified the proper balance of civil and military control. We do have honest differences of opinions, and they are expressed in these councils. I firmly believe that it is logical and healthy that they be so expressed. I do wish to emphasize, however, that after two years of working with my opposites in the Army and the Air Force we have always managed to resolve any differences of opinion. True, today in the field of distribution we have a couple of issues on which we have not as yet been able to agree. But except for these pending items, we can honestly state that in two years the three Services, in the field of distribution, have jointly worked out satisfactory solutions without a single major disagreement. All appreciate that unification is the law, and I honestly believe that all concerned are doing their utmost to make unification work. I personally believe in unification as presently prescribed; it has contributed much to National Defense, and it will contribute much more.

IN THE process of exercising good stewardship over the funds made available to the Armed Forces, the services themselves make valuable and varied contributions to the civilian economy. The money spent by the taxpayers for Armed Forces support is not merely a premium for security insurance, even though, as I have said before, the sole justification for the Armed Forces is their ability to defend the country. Please bear in mind that practically all of the $14 billion appropriated for their support this year has or will be returned to the civilian economy. Though the Armed Forces are not producers of wealth, they do provide, in addition to the security they assure, employment for millions of our citizens, both directly and in-

Admiral Foster

directly and they are industry's best customer. For example, the salaries paid by the Department of Defense to civilians amount to about $2,367,-000,000 annually, and we are currently buying material and services from American business firms at an annual rate of more than $5 billion.

Then, too, the research and development constantly carried on by the Services redounds to the great advantage of our economy as a whole. To drive home this thought, I need only mention the Service contributions to the development of the airplane, radio, radar, and atomic research. Stark necessity has accelerated such scientific progress during two world wars within my time, but the startling end results attained during wartime merely reflect the continuing progress achieved during the more prosaic and unheralded times of peace. Service personnel work hand in glove with the leaders of industry in fields of joint interest, and the results achieved are jointly shared, even though the end results, separately channeled to the specific military and commercial applications, respectively, sometimes appear unrelated.

For example, turbo electric drive using steam was developed by industry for the Navy and first used in the collier U.S.S. *Jupiter,* which later became our first aircraft carrier, the U.S.S. *Langley.* A great many advances were made in the steam field resulting from improvements in superheaters, condensors, and later by the use of superheated high pressure steam. The finest aircraft engines in the world were produced as the result of cooperation between the Defense Department and the manufacturers. Another example of something which may come into widespread use as a great advancement in the aeronautical world is the turbo-propeller aircraft engine which is now appearing in experimental aircraft. There are a great many such items worthy of mention, such as anti-fouling paints for surface vessels and preservative materials.

This is the text of the address which Admiral Foster delivered before the 54th annual Credit Congress in Los Angeles, California on Monday, May 15.

ANOTHER very important contribution to the civilian economy generated by the Services is worthy of mention—the training, both general and specialized, instilled in our service personnel. Our modern defense machine is indeed a mechanized monster with a devouring appetite, requiring a constant flow of support from every segment of our economy. Personnel must be and are meticulously trained, in many specialized fields, to operate efficiently this highly complicated fighting machine. There is a constant flow of training, acquired both in Service schools and in the Services thereafter, to our civilian economy "know-how." By the time World War II hostilities ceased, 16 million men and women had served with our wartime forces. If we include World War I veterans, about one out of every seven persons in this country knows the military services at first hand. There is always a constant stream, of lesser volume in peacetime to be sure, of service-trained personnel returning to our civilian economy with valuable service-acquired "know-how."

In these, and many other ways which space precludes me from citing, the Services do contribute, both directly and indirectly, to development of that which does swell the wealth and augment the income of our national economy. Furthermore, this big business national defense establishment of ours can be, and is, controlled and adjusted, not only to complement the varying phases of our economic trends, but, as I have explained earlier, to provide such military security as our civil leaders determine to be necessary without jeopardizing either our national solvency or our economic equilibrium.

YOU have doubtless observed that, in discussing the national budget, I have mentioned only those funds appropriated for current support of our Armed Forces. Please don't interpret from this that I am unmindful of the other categories of budget expenditures directly or indirectly attributable to war, or its attempted prevention, e.g., those for veterans' benefits, for that part of interest on the national debt attributable to wars, E.C.A. Recovery and relief expenditures, and military assistance to friendly foreign countries. All such expenditures have an impact upon the national economy, but to include in the scope of my discussion expenditures incurred by events which all of us are powerless to change, or by decisions of an international scope made by our civil leaders, would be both presumptuous on my part and too time-consuming. As you have already observed, I am purposely restricting my comments to that part of the whole that pertains to current national defense support of the national and international policy decisions.

The bulk of these current expenditures for the Armed Forces quite properly is used for the support of the forces in being. There is a limit beyond which expenditures for military strength must not go if we are to preserve the economic strength essential for healthy survival. The President recommends and the Congress decides what this balance should be.

It is obvious that provision must be made—and I am glad to say is being made—for the quickest possible conversion of our personnel and material resources from peacetime to wartime utility. Our Reserve Training programs provide what we believe to be the best solution to the personnel portion of this vital transitional problem. Civilians in uniform have, throughout our history, played a vital part in the winning of all the wars in which we have been engaged. One of our greatest sources of military strength consists of that patriotic group of our citizens now in private life who enroll and train for immediate mobilization should emergency engulf us. During World Wars I and II it was my privilege to serve with these reserves. As a matter of fact, they comprised the bulk of our fighting forces, built around the nucleus of the regular personnel.

As an example of the great importance of this participation, at the Aviation Supply Office at Philadelphia, the nerve center of our naval aviation supply system, I had, during World War II, over 500 officers, of whom not more than 25 at any one time were regulars. I cannot over-emphasize the importance of our reserves, officially known as ci-

vilian components. In any transition period they must be ready to step in the breach immediately to augment the nucleus of our regular personnel. Our reserve programs are established to accomplish just that. For example, and I quote Secretary Matthews, "in the Navy alone we have today a total of 313,416 Naval Reserve Officers, of whom over 6,000 are on active duty. We are pushing toward a goal of more than 300 Naval Reserve Training Centers. We have scheduled a large number of training cruises for commissioned and enlisted Reservists, and for approximately 6,000 naval ROTC college men this summer. We are going to train more than 21,000 Air Reservists at our air stations during the summer months. We are not only going to move our Reservists around, but we are going to move many of them ahead, because during 1950, 24 separate selection boards will consider 52,000 Reserve officers for promotion."

WE MUST likewise prepare to bridge the gap, during the transition period, material - wise. Never again will we have two years in which to tool up for war. On the other hand, our national economy can't afford to keep idle any plants that can be utilized profitably for peacetime production.

The answer to that problem, of course, is to prognosticate what must be turned out for war, to assure adequate supply of raw materials in their manufacture, to schedule tentatively such production, to allocate the plants that must be utilized for that production, and to plan the most expeditious and effective utilization of these facilities. Collaterally, plans must be made for the transportation of these munitions of war, and sufficient capacity and personnel must be reserved for essential civilian needs. All of this and much more of a related nature we are providing for by our current Industrial Mobilization Planning.

While the success of our current Mobilization Program will depend in large measure upon how well we in the Armed Forces plan, little progress in this important field will be achieved without the cooperation and collaboration of those of you who represent industry. Only by your wholehearted support can we hope to incorporate substance, practicality and realism in these plans.

These personnel and material planning measures will never take the place of forces in being to assure our national security. They do, however, comprise the next best substitute, in that they will enable the quickest possible mobilization of our resources to support and augment these forces. The cost is small. The dividends are large. The essentiality of such planning increases progressively as funds for continued maintenance of the forces in being are curtailed. We are thoroughly alive to the great importance of these personnel and material planning programs, and I assure you they are being given the emphasis they deserve. The central planning and control of these programs is, of course, vested in the Munitions Board and the National Security Resources Board.

ALL OF which prompts me to stress once more the importance and scope of unification. The 1947 Act provided for a single defense team of the Armed Forces without loss of identity of any one of them. Most of us are prone to overlook the fact that this National Security Act created, *outside* of the Department of Defense, the National Security Council and the National Security Resources Board—the former to coordinate national, foreign and military policy, and the latter the overall planning of total emergency mobilization. The Munitions Board, within the Department of Defense, plans the military phases of industrial mobilization; the Research & Development Board, likewise within the Department of Defense, guides the work of devising superior military equipment upon which to base our war strategy. These Boards within the Defense Department provide the necessary liaison with the National Security Resources Board, just described, which operates at an echelon above that of the Department of Defense.

Unification, therefore, may be described as a mechanism to bring jointly into play the military and civilian elements concerned with national defense. It makes practicable the achievement of unity of command, unity of purpose, unified research, greater economy through elimination of duplication, and the saving or buying of time most precious in the vital critical period of transition from peace to war.

EACH and every one of us must be partners in this national security team. National security is not merely the strength of our arms; it is the sum of all of our strength, political, economic, and moral. Proper balance must be maintained between the military striking force and the civilian reservoir of men, morale and machinery upon which the fighting force must depend. Mobilization of military manpower must be carefully integrated with industrial mobilization.

We must realize that this vital issue of security has now assumed a global concept. All of our resources—military, industrial, political, and moral must be marshalled and continuously evaluated. Economic strength must be shielded by the protective cloak of military strength if it is to survive and build itself up to still greater strength. Our national economy, our social structure, even our political state, are lost if our system of military security fails.

We must all work together to add still greater moral fiber to the character of our people to augment this nation's determination and will to maintain our concept of Democracy. Please bear in mind that it is the intent of our opponent in this cold war not only to wear down our ability materially to resist its aggression, but also to cause us by continued and prolonged cold war tactics to dull the sharp edge of our will to resist and repel their attacks. We must, therefore, continue to preserve that fineness of balance which will enable us in times of peace to keep in being and ready to fight sufficient military strength to prevent armed conflict, to plan the most rapid and effective conversion of our resources from peacetime to wartime use should war come, and still devote sufficient funds and attention to our economic life to assure a continuous process of strengthening our whole structure. If we are to maintain this strength and assure our continued security, we must have not merely a well-equipped and well-planned military effort, not merely effective industrial mobilization programs,

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REORGANIZATION—our big chance

by CHARLES B. COATES

Vice Chairman and General Manager, Citizens' Committee for the Hoover Report

THE Hoover Commission was one of the best investments the American people ever made. The entire Report cost the nation less than $2 millions. And to the Commission's credit the following achievements already stand on the record:

The Reorganization Act of 1949. This authorizes the President to submit plans to Congress for simplifying the structure of the Executive Branch. Plans become effective 60 days after submission unless rejected by a constitutional majority of either House. Six such plans were approved by the first session of the 81st Congress and 25 others are presently pending.

Strengthened unification of the Armed Services. Improved budgeting and other business methods are being installed in the defense establishment through which savings of at least $1 billion a year will be realized. These are *operating* economies and are not to be confused with "cutbacks" in equipment and manpower.

Creation of the new General Services Administration. This consolidates four previously existing agencies. Real strides are being made in modernizing and simplifying government procurement, inventory, records management and other "housekeeping" procedures. Annual economies of $250 million a year will result.

Reorganization of the internal structure of the State Department. Red tape and delay have been cut and communications vastly improved with a consequent reduction of 50 per cent in the Secretary's burden of paper work. Many businessmen report that it is much simpler to deal with State today than it has been in the past.

The new Budget format for fiscal 1950-51. This has been justly hailed by Mr. Hoover and others as the foremost advance in federal financial management in recent decades. Replacing the cumbersome older form, the new Budget for the first time makes it possible for the President, the Congress, and the citizen to ascertain the *purposes* for which federal funds are sought as well as the amounts.

Creation of over 20 "Little Hoover Commissions" by state governments. Others are being formed in the larger cities, including New York and San Francisco.

A great general quickening of interest in better management within and without the government. This has been evidenced by such things as the Civil Service Commission's new Executive Development Plan to attract capable young people to federal service and train them systematically for positions of responsibility; by the work of the President's new Management Advisory Committee of government officials and business men to encourage more modern management methods throughout the government; by the public response to the Citizens Committee's program of public education; and by the rapid formation of bipartisan state and community Citizens Committees throughout America.

All told some twenty per cent of the Commission's recommendations have been authorized by Congress and are being put into effect with eventual savings of $1.25 billions a year.

WELL within reach are additional reforms of sweeping importance. Besides the twenty-five Presidential plans, Congress is considering fundamental and far-reaching improvements in (1) federal personnel procedure, (2) reorganization of the post office and the removal from politics of the jobs of 20,000 postmasters, (3) unification of federal medical services relieving a severe strain on the nation's scarce supply of skilled physicians, nurses and technicians, and (4) modernization of our antiquated federal accounting machinery.

If action can be obtained on these measures, there will remain many other reforms of great potential benefit to be accomplished. An additional 30 to 40 per cent of the Commission's proposals can easily be adopted by this session of Congress. Potentially, these measures would constitute the most impressive record of real reform in the history of this or any government.

THE real question, however, is this: *will anything more be done?* When the Hoover Commission's Report was released in the winter of 1949 it was greeted with a display of nationally unanimous approval the like of which has seldom been seen in modern times. The simple principles enunciated in the Report are those on which all Americans obviously could agree. We *all* believe in good organization.

On the surface, therefore, the Hoover Commission Report seemed about as controversial as the Star Spangled Banner. Even then, however, certain stubborn facts betokened hard going for the Report. Historically the odds were heavily against it. Innumerable previous attempts at reorganization had been made and all of them had disappeared into the dusty pigeonholes of Washington. Many of the sages of Washington were willing to wager that nothing substantial would ever be done about the Commission's recommendations. Others, more optimistic, felt that, in view of the remarkable public response, it might be possible to put through about 60 per cent of the program in about ten years.

By such standards we've done well. On any basis, both the Commission and the Committee are definitely "in the black." In the brief year of the Committee's existence, however, we have learned much about the behavior of the American body politic. Some of this has been encouraging. Beyond doubt the Report has injected a sharp infusion of the old American spirit of civic responsibility into the national blood stream. It has flexed the mental muscles of an intellectually lazy nation. It has revitalized the circulation of ideas about how a government should be run.

At the same time we have become newly aware of certain chronic national diseases. For example, we have long heard much of a malady called the "Gimmes." Its primary symptom is expressed in an incessant chant of "give me this" or "give me that." The "gimmes" are by no means confined to children and chorus girls. They have spread to every segment of the population and are heavily represented in Washington where the cry is for subsidies, loans, allocations, permits, contracts, benign regulations, and tax favors.

WE KNEW about the "gimmes." Now a companion virus has been brought to light by the reaction to the Hoover Commission Report. We can call this new ailment the "leamies" since its victims appear to be saying in effect: "leave me alone." On the door of practically every federal agency head in Washington there hangs a "Do not disturb" sign, while within there sits a victim of the "leamies" composing statistics to show that any change in his agency or bureau would be a national disaster.

The infection merely begins with the agency concerned. Presently it spreads to that portion of the public with which the agency deals. Soon the "leamies" cry is taken up by large national organizations representing various industries, professions, trade unions, and so forth. These groups then ride gallantly to the rescue of the distressed agency in question by putting pressure on Congress to avert impending change.

A distinguishing feature of both the "gimmes" and the "leamies" is the fact that the victims can readily recognize the symptoms in others but never in themselves. Right at this moment an epidemic of screaming "leamies" is sweeping the country. Some fourteen major national organizations have gone all-out to defeat some portion of the Hoover Commission's recommendations. Each and every one of these groups professes undying belief in federal reorganization, efficiency, and economy, and in the Hoover Report as a whole. Most of them are among the 95 national organizations with a combined membership of over 30 million who have, by resolution or other action, signified support of reorganization through cooperation with the Citizens Committee.

Dr. Robert L. Johnson, president of Temple University, and national chairman of the Citizens Committee, warned recently that "reorganization can be nibbled to death by its friends as readily as it can be bludgeoned to death by its enemies."

That is the danger we face today and it is a terrible danger. The Hoover Commission Report offers us, as a people, our big chance, probably our *last* chance, to assure ourselves of a government that is lastingly well-organized, efficient, and strong. The Report points the way to savings of an additional \$2 billions to \$3 billions a year. But, vital as these savings may be, there is more at stake than that. Our freedom, our very lives, may well depend on the effectiveness with which our government acts and the care with which it manages our resources, human and material.

LET us weigh these factors with care before we hand the decision over to the "gimmes" and the "leamies." Admittedly the Hoover Commission's Report is a plan, and no plan is perfect. But every good plan deserves a fair trial. If, in practice, it reveals imperfections, it can always be changed. I assure you that the Citizens Committee has no intention of ramming the Hoover Report down the nation's throat without full, frank public discussion in the democratic manner of the Hoover Commission itself. There were healthy dissents within the Commission and dissenters have every right to be heard. On the other hand, the Citizens Committee will not yield to the demands of the "leamies" that specific sections of the Report be withdrawn. The Committee has no more right to alter, modify, or go beyond the recommendations of the Commission than a carpenter has to alter an architect's blueprint.

We have a jerry-built government, in other words, and if we do a sloppy job of reconstruction we will simply wind up with some new form of the same ramshackle structure that we have all been complaining about for years.

THE one real national disaster would be the failure of the 81st Congress to advance the reorganization program substantially at this session. We shall know the answer in a matter of weeks. Will we then be congratulating the Congress and ourselves on a real success? Or will we, laid low by the "leamies," be engaged in post mortems and blame-fixing expeditions?

Whatever the outcome, this much we know: The Report was conceived on a bipartisan plane. It was executed by a bipartisan Commission and presented to the Congress on a bipartisan basis. Its success will be a bipartisan success. Its failure will be a bipartisan failure for which the party leaders on both sides of the aisle will have to take the blame. There is no lack of acceptable reorganization legislation before the Congress. There is no way in which it can be enacted, or rejected, by one party alone.

Underlying the failure, if there *must* be a failure, will be the "nib-

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LEGAL NEWS AND NOTES
of interest to financial executives

Reviewed by CARL B. EVERBERG

Assistant Professor of Law, Boston University

Progress of Proposed Uniform Commercial Code

FROM time to time report has been made on the progress of the proposed Uniform Commercial Code in this department. The final draft, Spring 1950 edition, has been distributed and it will have been submitted, by time of publication of this article, to the joint meeting of The American Law Institute and the National Conference of Commissioners on Uniform State Laws.

Never has a legal project been so slanted for laymen. Much of the old nomenclature steeped in the lore of the law has been substituted by terminology smacking of modern business diction. The drafters of the Code have proclaimed that the new statutes are needed to keep in step with modern commercial practices and the practical language which practical men use in their transactions. It is possible that lawyers, disciplined in the forms and expressions of traditional legal science, will have more trouble understanding the new Code than will laymen. Indeed, such a straw is in the wind in the form of a criticism of the "novel phraseology" of the proposed Code (so far, at least as it deals with the subject of Sales) by Samuel Williston who was the father of the Sales Act as it was born in 1906 and which has governed all these years.[1]

The specific subjects treated in the new Code range in the Table of Contents as follows:

Sales

Commercial Paper (Note that the term "Negotiable Instruments Law" has now been discarded and more popular names covering certain transactions involving notes, checks, drafts, are employed).

Bank Deposits and Collections (Dealing also with other phases of "Negotiable Instruments")

Letters of Credit

Miscellaneous Banking Transactions

Warehouse Receipts, Bills of Lading and Other Documents of Title

Secured Transactions (This is a broad section of the proposed Code superseding the law on such security devices as chattel mortgages, conditional sales, trust receipts, assignments of accounts receivable, factors' liens, consignments)

Bulk Transfers (Formerly known as Bulk Sales Act)

Consequences of Stopping Payment of a Check

THE recent case of *Keller v. Fredericktown Savings Institution*, 66 A 2d 924, 10 ALR 2d 423, presents points of interest and education on the matter of stop-payment orders on checks previously drawn.

The depositor drew a check on September 20, 1947 on the defendant bank for $5000.00. On September 23 she signed and delivered to a bank official an order to stop payment. On that same date the defendant bank had received in the mail the check in question from another bank in which the payee had deposited the check. The check was received by the drawee bank, of course, for payment. But with the check there was a letter asking the defendant bank to wire the other bank whether the check was paid or not. The defendant bank called the other bank on the phone, said the check was good and then drew a draft and mailed it to the collecting bank. At that very time the depositor was in the drawee bank stopping payment on the check, using a printed form supplied by the bank for the purpose. *The depositor's account had not been charged at the time the order to stop payment was given.* Defendant bank's officer who took the stop payment order seemed to be of the opinion that what the bank had done, in assuring the other bank that the check was good, prevented the depositor from stopping payment. Consequently the defendant bank remitted to the other bank and deducted the amount of the check from depositor's account. She then brought suit against the bank to recover for defendant's payment of the check after she had delivered the stop-payment order.

The Court summarized several matters as follows:

1. The drawee bank has no right to pay a check after receipt of a stop-payment order and to charge the drawer's account. A check is merely an order upon a bank to pay from the depositor's account and the order may be revoked any time before it has been certified, accepted or paid by the bank. (Acceptance in this connection is practically synonymous with certification—it may result

[1] Samuel Williston, famous Dane Professor of Law Emeritus, Harvard Law School, *63 Harvard Law Review*, Feb. 1950, pp. 561-58. In his article Professor Williston says: "Many problems of interpretation will inevitably arise where provisions are expressed in novel phraseology and are intended to repeal statutes which have had years of judicial construction."

from a letter, telegram or writing).

2. The check itself, not certified, does not operate as an assignment of funds to the payee; the money in the banks belongs to the bank, the right to draw against what is *owed* by the bank to the customer being in force at all times.

3. The telephone assurance by the drawee bank to the other bank that the check was good does not amount, in law, to acceptance. An acceptance must be in writing; a telegraphic acceptance is binding (though the telegram must contain words agreeing to honor the check). The other bank could not have sued the drawee bank because there had been no legal acceptance.

The drawee bank was held liable to the plaintiff-depositor.

The Proposed Uniform Code and Stop-Payment Orders on Checks

MANY banks throughout the country have adopted a practice of requiring a depositor, who wishes to stop payment of a check, to agree in writing to exonerate the bank for failing to heed the notice. The bank can therefore be relieved from liability, in most states, even though it has been negligent. To this effect is a leading case, *Tremont Trust Company v. Burack,* 235 Mass. 398. The section on Stopping Payment in the new proposed Code (Section 4-202) contains a provision that a *bank cannot by contract avoid its obligation* in this respect, but that it may make a reasonable charge for stopping payment. The drafters of the Code explain, in a "Comment," that stopping payment of a check is a service which depositors expect and are entitled to receive; that it is admitted that stopping payment entails difficulty, inconvenience and expense to the bank and that a bank will occasionally suffer loss, but the drafters of the Code feel that a charge for the service will offset all this.

The Proposed Code on the Liability of Bank to Drawer for Wrongful Dishonor of a Check

HERETOFORE a rather heavy liability rested on a bank, in most states, to its depositor, for a wrongful dishonor of a check or draft. Not only did the courts allow actual damages, but substantial damages on the basis of defamation of the depositor in the reflection on his credit. It was not necessary to prove that any damage had occurred—the defamation occurred "per se" and that carried substantial damages as a matter of law. The new Code (Section 4-204) rejects this line of decisions and limits liability "to the actual damages proved including damages for any arrest or prosecution of the customer." Thus there are no punitive damages resting on the defamation theory, although the Code takes definite cognizance of the probability of a depositor being arrested and prosecuted under the "bad check" laws, and a bank will be subject to damages in the event of a drawer of a check wrongfully dishonored by the bank is arrested or prosecuted.

What is the Effect of a Writing Delivered With Blanks Not Filled In?

THE case of *Republic National Life Ins. Co. v. Hall* (Texas, Jan. 1950) 226 S. W. 2d 901, answers this question. An applicant for a policy of life insurance signed a salary deduction order in blank as viz:

Salary Deduction Order

I hereby authorize my employer to pay the monthly premium of $.... on my Policy No. ...... to the Life Insurance Company and deduct said amount from my salary each month, until further notice in writing.

On the question as to whether this writing could thereafter be considered a valid part of the whole insurance contract the court said that where a writing containing unfilled blanks has been delivered, the recipient has, according to a recognized rule, an implied authority to fill the blanks . . .; if the amount payable is left blank, any holder of the instrument may fill in the correct amount. Quoting from another case the court said: "If one signs an instrument containing blanks, he must be understood to entrust to the person to whom it is delivered the duty of properly filling in the blanks according to the agreement of the parties, and when so filled in the instrument is as good as if it had been originally executed in complete form."

Be Careful How Chattel Mortgage or Conditional Sale Is Signed

A MORTGAGEE and conditional sales vendor both came to grief in the case of *In re Brown,* 88 F. Supp. 297 (U. S. District Court, Northern Ohio, Eastern Division). Trustee in bankruptcy succeeded in prevailing against the mortgagee and conditional sales vendor of the bankrupt because the instruments had been signed in a fictitious (business style) name by which the mortgagor or vendee was not ordinarily known. Said the court: "it is the duty of the vendor or mortgagee to inquire into the true name of the vendee or mortgagor and see that the true name is signed to the instrument."

The underlying reason for such decision is, of course, that third persons would miss the liens in the record books because they would not be indexed under the name by which the mortgagor or vendee is known.

Controllers Publish Forecasting Guide

BETTER business forecasting is the key to better business in the future, according to a study just completed by Controllership Foundation, Inc., research arm of the Controllers Institute of America, New York, and based on an analysis of the forecasting practices and methods of 38 selected corporations in a wide cross-section of industry. The results of the survey, embodied in a report prepared for the research body by Frank D. Newbury, former director, vice-president and economist of the Westinghouse Electric Company, emphasize that forecasting is the starting point of intelligent business planning, and is essential to successful budgeting and control of expenses, costs and profits.

The Foundation's report, entitled "Business Forecasting," includes detailed case histories on the business forecasting methods of small single-unit companies, complex single operating unit corporations and multi-unit corporations.

Credit Executives Can Aid

ACCOUNTING PROGRESS

by CARMAN G. BLOUGH

Director of Research, American Institute of Accountants

AT THEIR last annual meeting, the certified public accountants who are members of the American Institute of Accountants reached an important decision: they adopted "Statements on Auditing Procedure No. 23 (Revised), Clarification of Accountant's Report When Opinion Is Omitted."

This news was not headlined in the press nor flashed across the nation by radio; but since the document's title is not exactly glamorous, the absence of public recognition is not surprising. Nonetheless, this action by certified public accountants has great significance—not merely to the CPA's themselves, but to all those who rely upon financial statements, for it represents another attempt on the part of the accounting profession to develop improved practices of financial reporting to satisfy the needs of third parties.

As those needs have become more sharply defined, accountants have consistently tried to meet them over the years. The new statement, in fact, is basically a further refinement of Extensions of Auditing Procedure, a report by a special committee of the Institute adopted by the society in 1939 and subsequently released as Statements on Auditing Procedure No. 1. The original report covered several matters of grave concern to the profession and to credit grantors at the time—including recognition of the observation of inventory-taking and the confirmation of receivables as generally accepted auditing procedures. It also formalized the concept (later incorporated into the Institute's rules of professional conduct) that the CPA should refrain from expressing an opinion in regard to the fairness of financial statements whenever his exceptions to the company's accounting practices or the limitations imposed on the scope of his audit required him to qualify his opinion so drastically that the report's value to third parties was seriously impaired.

There was, of course, a major omission here. The accountant was obliged to withhold an opinion under such circumstances; but he was not obliged to state specifically that he was doing so.

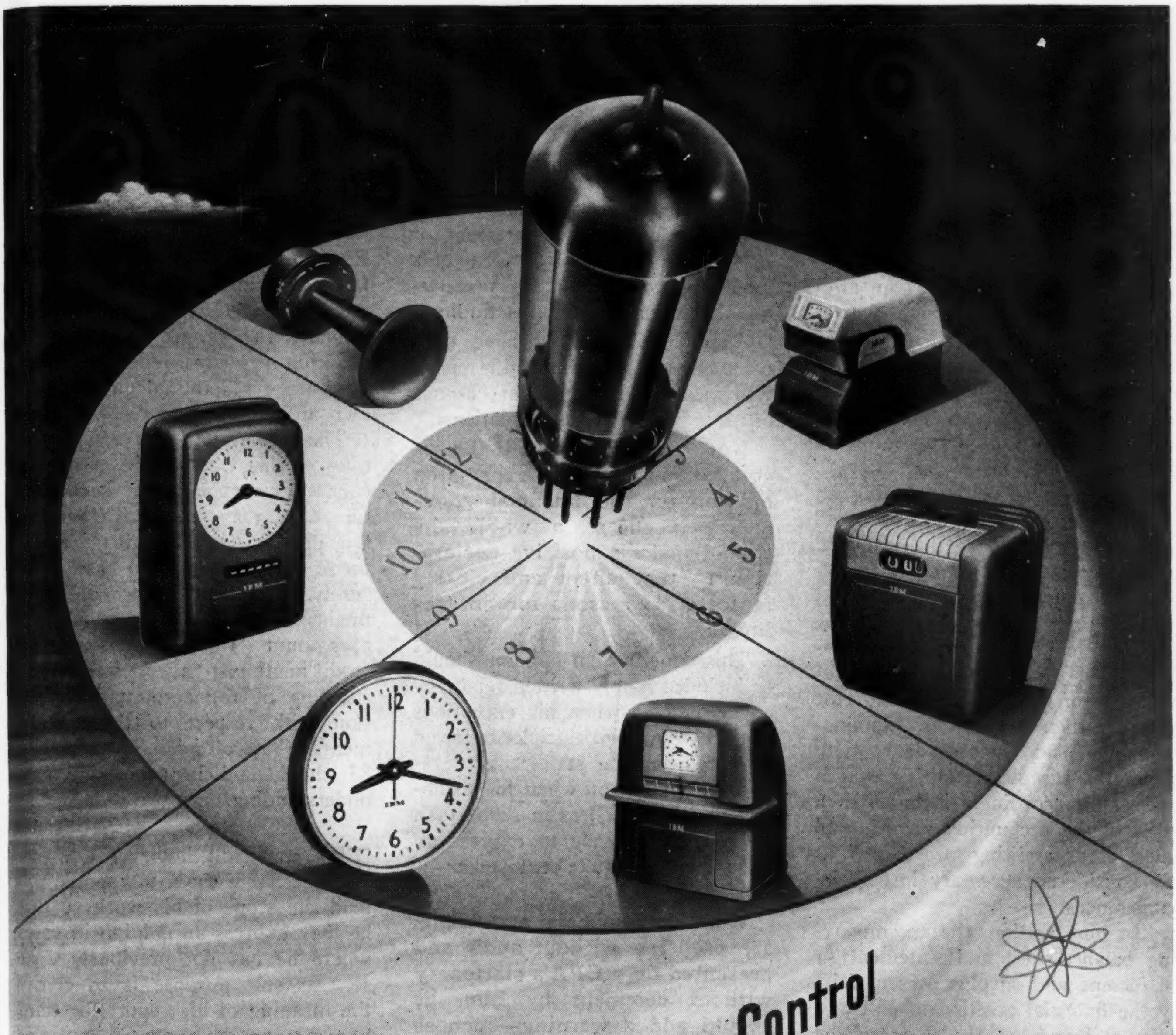
MANY accountants, indeed, have felt that their obligations to third parties have been fulfilled if their reports included a clear statement of what they did and did not do. Thus, while carefully describing their audits in considerable detail, they did not indicate whether or not the audit as described satisfied them that the financial statements made a fair presentation of the company's financial condition and results of operations. Other accountants have omitted any comment regarding the statements, simply typing them on their own stationary with a short letter of transmittal or with some such cryptic note as "for management purposes only." They believed that the absence of any comment was adequate warning that they were not assuming responsibility for the statements.

This warning would generally alert another accountant—but not always. Even an experienced accountant was often hard-pressed to decide what reliance could be placed on the statements—regardless of how fully the procedures followed in the audit were described—when the certifying accountant himself failed to appraise the results. It was only natural, therefore, that in such cases credit grantors and other third parties were seldom certain of the accountant's intentions or—even worse—assumed that he was expressing unqualified approval when he had no idea of doing so.

THE fact that a certified public accountant's name is associated with a set of financial statesments does not of itself mean that the statements carry his endorsement. Accountants perform many types of work which, while valuable to the business community, may not provide a basis for an opinion. In addition to special engagements of an advisory nature, such work ranges all the way from the preparation of financial statements without any audit or other verification of the accounts, to the performance of audits which are complete in all but one of two major respects.

Most of this work requires special accounting skills and involves the application of some auditing procedures; but it does not demand as extensive an investigation as is necessary for the expression of a professional auditor's opinion. Consequently, unless the accountant states the degree of responsibility which he intends to assume for such work, a credit grantor has usually no means of knowing whether or not he should place any reliance upon the fact that the accountant's name is connected with the resulting financial report.

STATEMENT 23 seeks to improve reporting practices in this respect. Whenever a certified public accountant allows his name to be



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associated with financial statements, he is now charged by Statement 23 to reveal his position in clear-cut language in one of four ways: with an unqualified expression of opinion, with a qualified opinion, with a denial of opinion, or with a notation to the effect that the statements have been "prepared from the books without audit."

When, on the basis of an adequate audit, he is satisfied that the statements fairly present the financial condition of the business and the results of its operations, the accountant should offer an unqualified expression of opinion.

The language for expressing an unqualified opinion is usually based upon the wording of the standard short-form of the accountant's report or "certificate," which reads:

"We have examined the balance-sheet of X Company as of December 31, 19— and the related statement(s) of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"In our opinion, the accompanying balance-sheet and statement(s) of income and surplus present fairly the financial position of X Company at December 31, 19—, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

This or similar wording may be presented by itself, thus constituting the accountant's whole report, or may be incorporated into a detailed report.

If he disagrees in some important respect with the accounting procedures followed in preparing the statements, or if his audit has been limited so that he has not been able to satisfy himself professionally on some significant portion of them, the accountant should issue a qualified opinion—unless his exceptions are of such a nature or are so material in amount that they negative an opinion with respect to the statements taken as a whole.

The exceptions, in any case, should be clearly stated in order that the reader may know the extent of the auditor's disagreement with the procedures followed in preparing the statements or of his doubt regarding their content. Like an unqualified opinion, the qualified report may be a brief statement or may be presented in the form of a detailed discussion of the accountant's examination and his findings.

These two practices have been commonly followed in the past. Statement 23 is important because of its two final recommendations.

Under its provisions, if the accountant is unable to express an opinion on the financial statements taken as a whole, he should make a positive declaration to that effect and clearly indicate his reasons for not doing so.

This denial of an opinion should be included in any written report by an accountant when his exceptions to the accounting principles followed in preparing the statements negative an opinion or when his examination has been less in scope than he deems necessary to express an opinion on the statements taken as a whole.

Whenever financial statements are prepared without audit and presented on a CPA's stationery without comment by him, he should add a warning—such as "Prepared from the books without audit"—in a prominent position on each page of the statements.

This is considered adequate notice to the reader that the accountant assumes no responsibility for their fairness. However, if statements prepared without audit are accompanied by any comment on the part of the accountant, he should include a denial of an opinion in his comments.

STATEMENT 23, in other words, calls upon the accountant to make clear exactly what he thinks of the financial statements which carry his name. Its whole purpose is to prevent credit grantors, stockholders, and others who depend upon such statements from being deceived about the significance of the auditor's name being attached. Specifically, it is designed to restrain these people from believing that the certifying CPA believes—and has grounds for so believing—that the statements fairly present the condition of the business and the results of its operations if, as a matter of fact, he either does not agree with them or has no basis for a professional opinion in regard to their fairness. Thus the accountant—and not the reader of his report—must evaluate the propriety of the accounting practices reflected in the statements and the adequacy of his own auditing procedures.

The importance to credit executives of this clarification of the accountant's responsibility is obvious. Of course, many elements enter into the decision to extend or refuse credit in a particular case; but, surely, the information provided by financial statements is usually of paramount value. Consequently, credit men must have a clear understanding of the accountant's position with respect to these statements. The adoption of Statement 23 should aid in promoting that understanding.

THE statement, however, does not suggest that the CPA should extend the scope of his work so that he may express an opinion in cases where he has not previously done so. Its sole purpose is to clarify the meaning of his report for third parties; and the users must decide whether or not the accountant's report is satisfactory for their purposes when he qualifies his opinion or denies one entirely. If it is not satisfactory, they must urge the client to have the accountant perform whatever additional work may be necessary to render the desired report. The accountant himself must be governed in the amount of work he does by his client's wishes. All he can be expected to do is to clarify his own position on the basis of the work authorized by the client.

Credit men and women, who are among the principal users of financial statements, can be particularly helpful in this missionary field. It will not be long, if they join in the work of promotion, before Statement 23 is recognized for what, in truth, it is—another milestone in the advancement of the accounting profession.

President Callaway Gives an Account of His Stewardship

THE function of making an annual report is an established part of the institution of president of our National Association and I assume that it is thought of pretty much as a dry chronicle of the highlights of a year's activities viewed from the particular slant of the retiring president. Frankly, until now that was about what it meant to me—a required item which didn't keep too many people awake. But now it's different! And I offer my humble apology to all of the members of that revered group into which I hope I am about to be admitted—our past presidents. Really, and most seriously, it is so different to me now after a year so filled with rich experiences and happy associations. There is so much I should say and so much I want to say to you—to you as a whole and to certain specific groups in appreciation for all that has been done in the way of gracious personal courtesies and in cooperation with the activities of my administration.

As the panorama of this wonderful year stands in my mind right now I am deeply mindful of the debt of gratitude I shall never be able to fully repay and it is with considerable emotion that I wish I had the power to impress upon every person who has a stake in the credit profession the vitality and worth of this organization, and the wisdom of sustaining the planning that has been evolved out of the experience and wise counsel of our national committees and our national staff. Their intensive efforts have gone to make up the year's activities on which I now report:

NO SERVICE is more necessary to us of the credit profession than that of our *National Credit Interchange*. Credit Interchange has had another fine year in membership gain, bringing to 83% the Interchange membership increase in five years.

During this year, two new Interchange Bureaus were added at Miami, Florida, and San Antonio, Texas, and others are in development.

Our Credit Reports are being used more extensively than at any previous time.

The Credit Interchange Board of Governors and the staff of the Central Bureau in St. Louis have made very fine progress, and I am sure we can confidently expect Credit Interchange to continue its splendid development for years to come.

Our *Foreign Credit Interchange Bureau* has completed another year of successful operation and of valuable service to Association Members engaged in international trade. Despite the difficulties currently encountered in most of our world markets, the Foreign Credit Interchange Bureau looks forward to its thirty-first year of service with optimism, and pledges continuation of its most excellent assistance to members in the administration of foreign credits. We are indebted to the members of the Administrative Committee and Bureau Council of the Foreign Credit Interchange Bureau for the fine record this division of the Association has achieved, under their able guidance.

The *National Adjustment and Collection Bureau Department* is a vital adjunct to a very great number of our members. As our system of bureaus grows to cover the country more closely with our brand of service to conserve the Nation's assets, increasing numbers are learning the value of the efficient service of this department. During the fiscal year ended April 30th the number of approved bureaus was increased to 50—meaning that there are now that number of efficient, bonded central offices across the country operating to serve the best interest of creditors through their conservation of doubtful accounts and through their administration of unavoidable liquidations.

These bureaus now have a net worth in excess of $1,100,000.00 of which approximately $180,000.00 was added this year.

That they are doing an indispensable work is best known by those who use their services. I commend them for their fine work and I unhesitatingly urge every member of our association to give first consideration to their facilities in the handling of difficult problems.

The *Fraud Prevention Department* built one of the most spectacular records of all in its early days. It still performs in that tradition. Although, as a result of what it has done, there are far fewer cases upon which to work, during the fiscal year 1949-1950 there were three convictions with long prison terms; two Federal Grand Jury indictments which are now awaiting trial, and a number of other cases submitted to prosecuting authorities after the usual thorough investigation.

This department continues to receive the fullest cooperation of Federal, State, County and Municipal authorities, who are fully aware that under no circumstances will our organization compromise with the fraudulent activities of commercial parasites.

Legislation affecting the field of credits has always been a matter of first concern of our Association. Under the primary leadership of our National Staff, legislative matters have received attention as occasion has demanded. This year has been one of little disturbance, but our sentinels are on guard and our influence is recognized and respected wherever it is appropriate for it to be brought to bear, whether it be in State legislatures or appearances before the committees of Congress. We have much cause to be proud of our legislative record.

Our ***national publications*** — "Credit and Financial Management" Magazine, Mr. Heimann's monthly economic letter, and the Credit Manual of Commercial Laws—are invaluable tools and sources of information of our profession. They are doing well. The magazine now has more than 32,000 circulation and its content has been much improved.

Our Executive Manager's "Monthly Business Review" now

has an average monthly circulation of more than 35,000. There are frequent requests for special distribution of certain issues, such as 10,000 copies of the March issue. In addition to the circulation, newspapers throughout the country quote editorially from Mr. Heimann's strong presentations of the economic facts of our times.

The sales of the "Credit Manual of Commercial Laws" for the past year were slightly under those for the previous season, but it continues to be soundly established.

I urge your constant and careful reading and use of these publications.

Membership is important as a means to an end. The more nearly we approach saturation coverage of our entire field of credit responsibility, the greater is our efficiency in all of our efforts. Not every year do we reach the optimistic goals set in the beginning, but I am happy to inform you that for the eighth consecutive year we have attained a substantial gain in members, and that during this year seven new Associations in Lubbock, Texas; Madison, Wisconsin; Boise, Idaho; Salem, Oregon; Eugene, Oregon; Nashville, Tennessee, and Topeka, Kansas have been added to our organization.

WHEN I think of membership, it is inevitable that I also think of the fine work of our *Credit Women's Groups*. This year they are celebrating their 25th anniversary. The first Credit Women's Breakfast was held at the Washington Convention in 1925. Since that time they have grown to 47 groups and more than 2400 individual members. Davenport, Iowa was added this year. Their objectives are to increase the membership of the National Association, to promote education generally and by the awarding of scholarships—of which 83 were awarded this year—and to promote new Credit Women's groups. Certainly the women of our organization have well earned the recognition they have received in representation as officers and directors of local units as well as the National Board. God bless them every one and may their enthusiasm never cease! We not only recognize, but applaud their valuable contribution to all that we do.

In every important business of which I have any knowledge, *Research* is considered a necessary activity for the improvement of established products and for the discovery and development of new fields of service. That I hold is equally true in the science of our credit profession. There is no fact in which I find greater pride than that in this past year we officially launched the Credit Research Foundation. It has been a year of getting set up for business, of getting the department fully staffed, adjusted, and into production with short range projects while beginning the planning necessary for development of the larger labors foreseen by the leaders who had the vision to lead us into establishment of the Foundation.

It has been a satisfactory first year. I am proud that a sufficient number had the courage to "grub stake" the beginning.

It is my confident hope that our vision will not fade, for research is a continuing thing and our "beginning" must not be limited to too brief a time. We are entitled to expect justifying performance, but we must realize that such returns cannot be regulated as dividends, and that the Mother Lode was not uncovered in a season.

WASHINGTON in his Farewell Address admonished our fledgling nation to consider as a matter of primary importance institutions for the general diffusion of knowledge. And history has judged that brief admonition as one of the best counsels of "The Father of our Country." I think nothing in our Association can be calculated to produce more far-reaching good than its educational activities, which, as you know, are conducted under the National Institute of Credit through approved colleges and universities throughout the country, and the Graduate School of Credit and Financial Management.

There has been a healthy gain in *Credit Education* activities throughout the country. Interest on the part of local Associations and colleges and universities continues to mount. There are at present 2,259 different students registered in the National Institute of Credit, as compared with 1,897 registered a year ago. This represents an increase of 19%. A year ago our educational activity was being carried on in 33 active Chapters. Today we have 41 active Chapters.

A total of 23 Fellow Award Certificates have been issued to date as compared with fourteen such Certificates for the prior year. Interest is growing rapidly in the *National Standardized Examinations* for the Fellow Award, which are to be given again in June of this year.

Five more approved colleges and universities have been added to the list of institutions cooperating with the National Institute of Credit, bringing the total to 42.

Much remains to be done to meet adequately the educational needs of our membership. We are building solidly for the future, and I urge with every possible emphasis that every Association which does not now have an educational program take immediate steps to bring such a program into being for the service of its members.

THE executive training phase of our educational program has been in operation under the name, Executives' School of Credit and Financial Management, conducted for the past three years at the University of Wisconsin. It is being moved this year to Dartmouth College at Hanover, New Hampshire, and the name has been changed to the "Graduate School of Credit and Financial Management." The entire program is being developed on the graduate level.

A Committee of Administration appointed by the National Board has full responsibility for the policies and general administration of the School.

This graduate work is one of the most important of our educational endeavors in providing advanced training for greater responsibilities in the days ahead. Accredited work in this school is not only the key to doors of opportunity, but a road to certain fulfillment of the ambitions of many for the satisfaction of personal accomplishment. I recommend it without reservation for the consideration of every individual of our membership.

A FEW questions lie ahead of us on which I feel I should inform your briefly.

The *Permanent Home Committee* has been active throughout the year. No decision has been reached as yet with respect to whether it would be to the best interest of the membership and the National office to seek to own its home, or whether we should attempt to renew our existing lease or find space elsewhere in New York City.

It will be impossible to renew the present lease, which expires as of April 30 next year at the same rental, and in fact impossible to procure the same character of space at the rent we are now paying anywhere in New York City or elsewhere.

The Committee is empowered not only to give thought to the acquisition of a permanent home, but likewise to give thought and consideration to the procurement of a new lease and finally to give consideration to the establishment of headquarters outside of New York City if such a move would seem practical. Action naturally would be subject to Board confirmation. Any transfer of headquarters would be subject to an expression by the entire membership, but so much of the National organization must of necessity be located in New York that it would be questionable whether there would be an economy to move elsewhere.

You, of course, will be informed as this question develops.

The question of *retirement income* has been given much thought as the general practice has grown in our economy. In a modest way we have through the years continued to add such funds as we could spare to a reserve we have set up as a retirement fund. We hope to be able to continue this so that the employees of the National office will be accorded the same measure of security commonly found in a private business organization.

As many of you know, a great deal of consideration has been given to the question of *revision of our National Constitution*. I cannot emphasize too strongly the large measure of work performed by the Constitutional Committee under the chairmanship of Past President Ed Blaine. The entire membership is indebted to the Chairman and his committee for having approached this problem in a most constructive way.

Through the years of our present National Executive Management all of us have been gratified and I am sure, deeply appreciative of the handling of our National *budget*. You know better than I can tell you that the budgeting problem in the National office is a most difficult one. Nevertheless I am happy to report that once again we have balanced our budget for the year. In the year ahead a continuing effort will be made to keep our budget in the black. I have every reason to believe we will continue to operate within our income. The problem, however, is not an easy one since costs are increasing day by day.

NOW I come to what to me is a very personal and most important part of my report. In my remarks concerning our various activities I have refrained from all but a single mention of specific individuals. I have done so because of the hazard of regrettable omissions. It is particularly true of this wonderful year you have given me. I could not have hoped for more in the way of cooperation from every one with whom I have dealt and I could not wish for more for those who follow me. It would require more time than is available to mention the many instances of appreciated courtesy, hospitality and valuable assistance I have received.

I do, however, insist upon mentioning the fine cooperation of the Secretarial Council, the National Staff, Committee Chairmen, The Board of Directors, and the local secretaries and their organizations wherever I have been in the many thousands of miles of my travels during the year. I am humbly and deeply grateful to them all, for it is the like of that which makes our association strong and great.

So much by way of report.

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FINALLY, I would be remiss, I think, not as president of this organization, but as a citizen of this country we love dearly, if I did not use this opportunity to express to you my feelings of alarm over the subtle growth of inflation, which in other countries has led the people into socialism.

As citizens of a republic, we must all share the blame as well as the consequences, if inflation runs its course. Let me cite just a few simple facts:

Money is not wealth. It is simply a token, a medium of exchange, which finds expression in the goods it will buy—goods which are the result of productive work. It is a convenient means of my buying California oranges and of the people of California buying garments manufactured from the fabrics processed by my company in Georgia. The production of these goods creates wealth, makes our dollar valuable, and raises our standard of living. Increasing the dollar supply in our monetary system by deficit spending does not create more goods or raise our standard of living. On the contrary, it increases the dollar price of goods that are produced and thus lowers the purchasing power of every dollar of wages or profits earned.

The productive genius of this country has made tremendous strides. That is the chief fact which has set us apart, but the value of that progress has been, and continues to be, watered down by the cheapening of the dollar, with impartial effect upon current earnings, savings accounts, insurance programs, retirement incomes, and the support of dependent families.

By far the greatest inflationary influence in our economy is government deficit spending, without regard for political affiliation. When our government spends more money than it collects in taxes, it simply gives its I.O.U. to the Federal Reserve System and places that amount of added currency in circulation.

Hear these fantastic figures:

In 1939 there was a money supply of 40 billions of dollars. In 1949 it was 120 billions, three times as much as in 1939. Production of goods increased too, but only 70% — that means that compared with 1939 there are $3.00 outstanding to claim each $1.70 of goods produced, — actually about a 59 cent dollar today. If it were not for the increased production, the relationship would be about 33 cents.

THOUGH in our optimism we may boast that we are a virile nation and still have reserve strength, I still insist that the situation is alarming. I am not an economist and could not develop the subject fully, but to me, as an American business man, it is tremendously significant that while out of the last 21 years only five have been war years, or eight of them war and postwar, yet in 18 out of 21 our government has spent more than it has taken in—has borrowed to cover the difference, constantly has inflated the currency and bit by bit reduced the value of the old dollar to create the new one.

There is yet time—but time is fleeting.

The answer is for our government to collect more or spend less.

Total taxes are now around 25% of income, and that is generally regarded as approaching maximum tolerance.

In a representative government such as ours, public officials are the servants of the people. They are responsive to the pressure brought upon them; "pressure groups" wield tremendous influence.

Some anonymous author wrote the history of mankind in these nine lines:

From Bondage to Spiritual Faith
From Spiritual Faith to Great Courage
From Courage to Liberty
From Liberty to Abundance
From Abundance to Selfishness
From Selfishness to Complacency
From Complacency to Apathy
From Apathy to Dependency
From Dependency to Bondage

As I see it, we have one foot in Apathy and the other in Dependency. Our present course leads as certainly to Bondage — the bondage of socialism and totalitarian government—as certainly as it led to bondage in the days of the Caesars, the Ptolemies and the Pharaohs.

We, the people, are confronted squarely with the proposition of whether our economy is simply to repeat the age-old pattern of rise and fall of Empire, or whether, out of all the growth and refinement we claim to represent, we have gained sufficient wisdom and moral courage to restore and hold fast to a land of personal liberty under government by laws, where individuals of character, intelligence and energy — of whatever social origin — may gain substance and honor commensurate with their labors.

There is yet time, but time is fleeting!

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and we can be just as impartial

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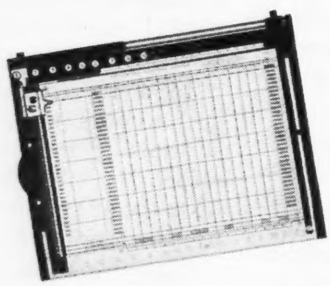

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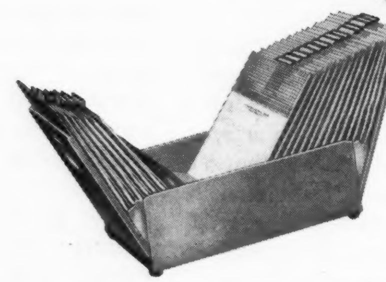

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ASSOCIATION

NEWS

Credit and FINANCIAL MANAGEMENT

LOCAL

NATIONAL

Los Angeles Credit Congress Scores As An Outstanding NACM Milestone

Proposed Change in Association Name Loses by 83 Vote Margin

West Coast Swing Determines Ballot At Closing Session

Los Angeles: A proposal to change the name of the National Association of Credit Men to the National Association of Credit Management was defeated during the final session of the 54th annual Credit Congress by the slim margin of 83 votes out of a possible 1578.

Seven hundred and ninety votes would have been sufficient to carry the motion but proponents of the move could summon up only 707. Actually these 707 votes were a majority of the votes cast, the noes being able to accumulate only 591. However, the vote was decided on the basis of the total possible proxies rather than on the number of proxies filed.

The largest bloc of votes, those of the New York Association, were cast for the motion. However, the combined votes of the West Coast Associations, which were almost unanimously against the change, were the deciding factor.

Opponents of the proposal based their argument upon two premises: that the Association, under its present name, had held and still holds an illustrious position in American business life and has gained wide-spread recognition as an association devoted to sound business principles; and that if the name were to be changed, unless great pains were exerted to preserve the old name, it could pass into the public domain and any other group could use it and take advantage of the reputation it has built up over many long years.

Most other changes proposed in the new by-laws passed without opposition. A report on this phase of the convention's closing session will be found on page 41 of this issue.

A. J. Sutherland

New Officers and Directors Elected At Final Session

Los Angeles: A. J. Sutherland, president of the Security Trust and Savings Bank, San Diego, was elected president of the National Association of Credit Men during the final session of the Association's 54th annual Credit Congress at the Biltmore Hotel. Mr. Sutherland was vice-president of the Association during the past year, having been elected to that office at the 1949 Credit Congress in Atlantic City, N. J. He had previously served a three year term as a member of the Association's Board of Directors.

Three vice-presidents were also elected at this morning's meeting. Representing

(Continued on Page 38)

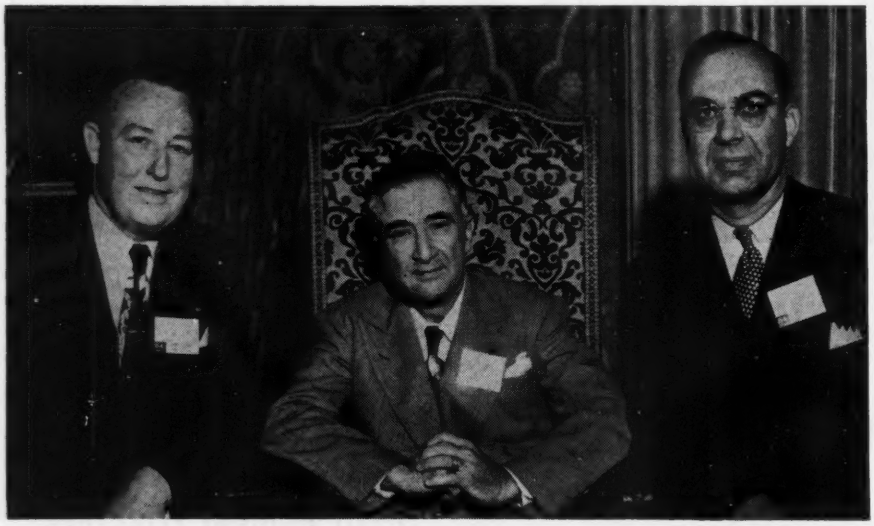
54th Annual Meeting Features Excellent Program and Events

Los Angeles: The 54th annual convention of the National Association of Credit Men held in the Biltmore Hotel, Los Angeles, on May 14th through May 18th, was a big success in spite of the railway strike which started as several trains from the East were heading into California territory. The registration and attendance was almost up to the expectation. From the time that H. E. McManigal, general convention chairman, swung his gavel lustily to call the convention to order on Monday morning until Allen J. Sutherland, president-elect for the 1950-51 Association year, led the delegates in singing Auld Lang Syne as the closing incident on Thursday noon, the entire convention was truly a "sparkler."

National President Shad Callaway, Jr., presided at the Monday morning session, and A. J. Sutherland, as vice president representing the Western division, introduced the speakers on Monday afternoon. George H. Nippert, vice president representing the Central division, presided at the Wednesday morning convention session and Earl N. Felio, vice president representing the Eastern division, occupied the chair during the first part of the Thursday morning program until President Callaway took over to give his annual report and conduct the election session.

The general session programs were of high caliber. This tempo was set on Monday morning when Executive Manager Henry H. Heimann delivered the keynote address. The text of this keynote was printed in full in the May issue of CREDIT AND FINANCIAL MANAGEMENT and was widely quoted in newspapers throughout the country. Charles B. Coates, of New York, vice chairman of the Citizens Committee for the Hoover Report, also spoke on Monday morning and outlined the expected benefits from reorganization of the

Meet the New Vice-Presidents



Vice-presidents Earl N. Felio, Colgate-Palmolive-Peet Co.; Lester F. Fishbeck, Coast Packing Co., and K. Calvin Sommer, Youngstown Sheet & Tube Co., (left to right) pose for the Credit photographer immediately after their election—in Mr. Felio's case re-election—at the final session of the convention on Thursday morning, May 18.

Federal Government as proposed in the Hoover Report.

The Monday afternoon session was devoted to a discussion of various aspects of government as they affect the business economy. Representative Richard Nixon, Congressman from the 12th California district, gave the delegates an interesting insight into the now famous Hiss case and told why he insisted, as a member of the House Committee on Un-American Activities, that Alger Hiss be prosecuted. Dr. Adam S. Bennion, vice president of the Utah Power and Light Company, of Salt Lake City, warned the convention delegates that lack of interest in politics presented a grave danger for industry and that a greater effort should be made to get people to express their desires at the polls. Vice Admiral E. D. Foster, U. S. N., chief of the Bureau of Maintenance, outlined the objectives of the Department of Defense in building and maintaining a strong nation for any eventuality.

The Wednesday morning program was featured by addresses by Benno M. Brink, one of the Referees in Bankruptcy in the Federal Court for the Los Angeles district, an inspiring talk by Dr. Kenneth McFarland, superintendent of schools in Topeka, Kansas, on "The U in Business," and another by W. C. Mullendore, president of the Southern California Edison Co.

On Thursday morning convention director Frederick H. Schrop, presented the chairmen of the Convention committees who received the enthusiastic acclaim of the delegates. K. Calvin Sommer of Youngstown, O., who served as chairman of the national membership committee for the past year, then announced the winners in the membership contests in the various classes. Mr. Sommer reported a net gain in membership of 669 for the year with a total national membership as of April 30 of 30,749. Plaques and silver cups were presented to the class winners by E. B. Moran as director of membership promotion. Details of the membership awards are given elsewhere in this issue.

In his annual report (text of which is presented in this issue) President Shad Callaway, Jr., reviewed the progress made during the past 12 months and predicted that this advancement will be continued during the months ahead.

Past National President E. L. Blaine, Jr., of Seattle, then presented the report of the special committee appointed by the National Board of Directors on a revision of the Association's by-laws. The much-discussed proposal to change the name to the National Association of Credit Management was defeated on a roll-call vote by a margin of 83 votes. After the balloting on the proposed change in name, however, the balance of the new by-laws as reported by Mr. Blaine's committe was adopted by a showing of hands without a dissenting vote. There were, however, two exceptions made in the printed form. These were covered in a special resolution offered by Chairman Blaine and will keep the number of districts at 10 and the number of National Directors 24 instead of the proposed 27 as indicated in the printed draft of the by-laws. It was announced by Mr. Blaine that further study of these proposed changes was deemed necessary. A further report on the action on the by-laws is presented elsewhere in this issue.

President Callaway then called for the report of the Resolutions committee (full text of which is given on another page). He then called upon Past National President Charles E. Fernald, of Philadelphia, to present the report of the Nominations Committee which resulted in the unanimous election of Allen J. Sutherland, of San Diego, as president and three vice presidents and directors as given elsewhere.

Mr. Fernald then presented a beautiful silver tea set to Mr. and Mrs. Callaway. President-elect Sutherland closed the 54th convention with the usual ceremony when he asked delegates to stand, join hands with their neighbors and sing "Auld Lang Syne."

And so closed one of the great conventions of N.A.C.M.

"Shad" Callaway Honored During President's Dinner

Los Angeles: C. Callaway, Jr., retiring national president, was presented with a pair of gold cuff links as a token of appreciation for his year's service during the annual president's dinner for past and present officers and directors on Monday, May 15, The links bore the "Vigilantia" seal, symbol of the National Association.

William Fraser, J. P. Stevens & Co., Inc., New York, who made the presentation, wore the pair which was presented to him in Boston in 1931 at a similar ceremony.

Incidentally it was at that Boston Convention that executive manager Henry H. Heimann was elected national president. Next year, also in Boston, he will celebrate his 20th year of service as executive manager.

Credit Research Foundation Again Elects Paul Miller

Los Angeles: Paul W. Miller, the Marlborough Co., Atlanta, Ga., was re-elected president of the Credit Research Foundation, Inc., during a meeting of the Foundation's trustees held in Los Angeles. Charles E. Fernald, Fernald & Co., Philadelphia, was elected vice-president. Both are past presidents of the National Association of Credit Men.

Earlier a general meeting of Foundation members was held at which a nominating committee headed by past president Robert L. Simpson, C. T. Patterson Co., Inc., New Orleans, put forward the names of four members to serve three-year terms as directors: Randolph W. Hyde, Carnegie-Illinois Steel Corp., Pittsburgh; Mr. Fernald; E. J. Keefe, E. J. Keefe & Co., Tampa, and Gus C. Klippel, Van Camp Hardware and Iron Co., Indianapolis; and one for a one-year term: retiring president C. Callaway, Jr., Crystal Springs Bleachery, Chickamauga, Ga.

Dr. Carl D. Smith, director of research, described the projects presently being undertaken by the Foundation and emphasized the work being done by the Foundation in fostering the establishment of credit courses in colleges and universities.

Here and There

The ubiquitous Zebras started in early greeting arrivals at Union Station (above).

More Zebras were in evidence at the reception on Sunday afternoon.

This is a corner of the Biltmore Bowl during the unique all-group luncheon on Tuesday. At the head table can be seen Messrs. Nippert, Felio, Sutherland, Callaway, Heimann, Dr. Anton de Haas, the speaker, chairman Roy Worth and Messrs. Cates, Roberts, McManigal and Miss Bess Marshall. Mr. Roberts is the new Los Angeles president.

Credit women's groups from all over the country were as usual well represented at the 54th annual Credit Congress in Los Angeles. One of the important functions during a convention is the annual credit women's business luncheon at which the above head table picture was taken. In it are, left to right: Ellen Anderson, Oakland; Beath Robinson, Chattanooga; Elma Hanson, Seattle; Lucy Killmer, Cleveland; Marian McSherry, New York; Marie Ferguson, New York; Bess Marshall, Los Angeles; Pauline Bressem, Portland; Verda Hughes, Kansas City; Mrs. M. W. Deissroth, Wichita; Blanche Scanlon, St. Paul; L. Lamb, Los Angeles; Kathryn Sirc, Cleveland.

News from CREDIT WOMEN'S GROUPS

Banquet Climaxes Twenty-five Years Of Women's Work

Los Angeles: Credit women from all over the country celebrated 25 years of credit women's work with their annual banquet on Wednesday, May 17, at the Ambassador Hotel. Miss Florence Banks, Los Angeles Soap Company, presided at the banquet which is always the climax of women's activities at NACM conventions. Miss Bess Marshall, Paper Supply Company, chairman of the credit women's executive committee was co-chairman of the affair.

Miss Banks reviewed the past 25 years in credit. She was one of the founders of credit women's groups, which first came to being at a luncheon in Washington, D. C., 25 years ago.

The big feature of the dinner was a talk by Edith Head, designer for Paramount Pictures, on the basic differences between motion picture and other designing. Costumed starlets from the studio illustrated the talk.

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St. Louis: The final meeting of the year was held by the St. Louis Credit Women's Group on June 8 at the Missouri Athletic Club. Miss Annette Snapper, of Milwaukee, was the guest speaker. Also the new president, Mrs. Margaret McCormick, Sefton Fiber Can Company, was installed.

No meetings are planned for the summer. However, a picnic will be held in July for the credit women and their families.

Bess Marshall

Credit Women Take Over Omaha Annual Ladies' Night Party

Omaha: The members of the Omaha Credit Women's Group were hosts to the members and their wives and friends of the Omaha Association of Credit Men at the Blackstone Hotel on Thursday evening, May 25, at 6:30 P.M. Besides a delightful evening of entertainment there were prizes for all guests, donated by the membership. Preceding the entertainment the annual election of officers and directors was held.

Credit Women Report Continued Progress at Business Luncheon

Los Angeles: Continued progress in all phases of credit women's work was reported by the chairman of the Credit Women's Executive Committee, Bess Marshall, of Paper Supply Co., Los Angeles, and Marie Ferguson, secretary, at the annual credit women's luncheon and business meeting on Monday, May 15.

In her report Miss Marshall pointed with pride to the 333 memberships in the National Association secured by credit women and to the 83 scholarships awarded during the past year—the highest number in the 25 years of the group's existence. Miss Marshall also congratulated the women on the increasingly important part they are taking in Association work, locally and regionally, stressing particularly the fact that sixty-two women are serving on local boards of directors, and seven on National committees.

In her report Miss Ferguson added some other figures. Membership totals 2400. 225 women are serving on local committees of whom 37 are committee chairmen.

The New York Credit Women's Group again won the women's membership plaque for obtaining 135 new NACM members.

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Pittsburgh: The last meeting of the season, planned for May 24, was postponed to June 7 since some of the group members were attending the convention in Los Angeles.

The meeting was a reception for the new officers. Association members were invited to join the women for this meeting.

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Owing to space restrictions additional news from credit women's groups must be held over for a future issue.

OPENING DAY

President Callaway is led to the platform (above); poses with general chairman Holden E. McManigal and "Miss Credit of 1950" (right); talks things over with Messrs. McManigal, Gates and Heimann (left below), and accepts the gavel as chairman McManigal hands the meeting over to him.

Credit Women Celebrate 25 Years

Miss Florence M. Banks, of Los Angeles, doyenne of credit women, cuts the twenty-fifth anniversary cake during the credit women's banquet May 17. Looking on is Miss Lillian Guth, of New York.

Entertainment Was Not Overlooked in Planning Congress

Los Angeles: Entertainment provided by the Los Angeles Credit Managers Association for delegates and their wives proved very popular. As the delegates arrived in the corridors of Galleria (the center of convention activities) they and their wives were invited to a general reception and tea under the joint auspices of the Credit Women's Club, Florence E. Banks, chairman, and the Association hostess committee headed by Mrs. Fred A. Cates, chairman, and Mrs. Holden E. McManigal and Mrs. Arthur D. Johnson, as co-chairmen. An organ recital followed.

The President's Ball in the Embassy Room at the Ambassador Hotel on Monday night was such a popular affair that dancing space was at a premium. On Tuesday night the delegates were entertained in the Biltmore Ballroom with a floor show in which Hollywood talent was presented. Jimmy Durante was billed as the top attraction, but other engagements prevented his appearance until late in the evening after the delegates and their wives had taken over the ballroom for dancing. Dancing in the ballroom also was provided for Wednesday evening.

Auto tours were provided for the wives on Monday, Tuesday and Wednesday and included visits to Hollywood studios and broadcasting stations.

The Hostess committee also entertained with a luncheon and style show at the Beverly Hills Hotel on Tuesday noon. The production and comment on the styles presented was directed by Mrs. C. Allen Graves.

Officers

(Continued from page 33)

the Eastern division, Earl N. Felio, assistant treasurer of the Colgate-Palmolive-Peet Co., Jersey City, N. J., was reelected. K. Calvin Sommer, Credit Manager, Youngstown Sheet & Tube Co., Youngstown, Ohio, was elected vice-president in charge of the Central Division, and Lester E. Fishbeck, assistant treasurer of the Coast Packing Company, this city, was elected to represent the Western Division.

Nine new members were elected to the Board of Directors: L. D. Duncan, National Distillers Products Corp., New York; C. Herbert Bradshaw, Bausch & Lomb Optical Company, Rochester, N. Y.; A. G. Keller, Mellon National Bank & Trust Co., Pittsburgh, Pa.; Irwin Stumborg, Baldwin Piano Co., Cincinnati, O.; Arthur L. Jones, Armour & Co., Chicago; Emmett Below, Marathon Corp., Menasha, Wis.; James Clemons, The Texas Co., Dallas, Texas (one year); R. W. Durrett, Sheffield Steel Corp., Kansas City, Mo., and G. Earl Brister, American Sugar Refining Co., New Orleans, La.

Convention Sidelights

Divisional Dinners on Monday evening were "sell-outs." The Eastern Division feast was held in the Garden room at the Town House. Morty Davis, of the New York Association, who ran this event, had to refuse tickets to some late arrivals as the tables were all reserved before 5 p.m.

The Chicago dinner in the Gold Room at the Ambassador also proved so popular that Jim Cox had to beg the management to install additional tables

The other sectional dinner, covering the delegates and their wives from the Eighth district, was turned into a delightful songfest with Brace Bennitt presiding at the piano.

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Delegates who return to Los Angeles should not rely upon Vice President elect Les Fishbeck as a guide. It was rumored that Les had difficulty in locating the Mayfair hotel in time for the Zebra dinner and came near dumping his guests at a mortuary several miles away from the Mayfair.

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Delegates who had an opportunity to visit the headquarters of the Los Angeles Credit Managers Association on West 8th street were impressed with the attractive and efficient offices under the supervision of Art Johnson as Executive Manager. A number of visitors went out to witness the operation of the mechanical equipment installed there several months ago by the Remington Rand Corporation for handling Credit Interchange reports. The equipment, first installed on a rental basis, has proven so efficient that it now has been purchased by the Los Angeles Association.

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There were 12 Past National Presidents on hand for the opening convention session on Monday morning. They were in the order of their election: Eugene E. Elkus, '24; William Fraser, '30; Henry H. Heimann, '31; E. Don Ross, '32; Edward Pillsbury, '36; Daniel Bosschart, '38; Charles A. Wells, '39; Bruce R. Tritton, '42; Robert L. Simpson, '44; E. L. Blaine, Jr., '46; Charles B. Rairdon, '47, and Charles E. Fernald, '48.

Annual Illinois State Credit Conference Is Now in Planning Stage

Chicago: Plans are already in the making for the Annual Illinois State Credit Conference to be held in Chicago, Wednesday, October 11, sponsored by the Chicago Association of Credit Men. Conference sessions will be held during the morning and afternoon for the discussion of vital credit subjects with a luncheon at noon. In the evening occurs the Annual Fall Credit Group Dinner of the Chicago Association with a guest speaker of national reputation. Delegations are expected from all sections of Illinois and neighboring states.

CLOSING SCENES

The convention comes to an end with the singing of Auld Lang Syne. Left to right: past president Charles E. Fernald, Shad Callaway, Mrs. Callaway, Mrs. Sutherland, president Sutherland and vice-presidents Felio, Sommer and Fishbeck.

Center left: Mr. and Mrs. Callaway receive the traditional gift of a silver tea service. They seem to like it.

Center right: Newly elected president Sutherland accepts the gavel of office from his predecessor.

Below: The eight new directors pose during the final session. Left to right: C. Herbert Bradshaw, Emmett Below, R. W. Durrett, Irwin Stumborg, G. Earl Brister, A. G. Keller, A. L. Jones and L. D. Duncan.

Statement of Resolutions and Policies of the National Association of Credit Men

WE the delegates of the 54th Annual Credit Congress of the National Association of Credit Men assembled at Los Angeles, May 14 to 18, 1950, have given careful consideration to the many problems which affect the credit welfare of business and the American economy, and as a result of our deliberations do resolve and take action as follows:

I

We hold it to be a basic principle that a business enterprise, to remain on a stable credit foundation, must weigh its total appropriations for expenses against anticipated income before authorizing expense disbursements, and since we firmly believe that at no time in the history of our great nation is there more urgent need for our national government to emulate this policy and practice of successful business enterprises, therefore we petition the Congress of the United States and the members of that Congress to weigh total appropriation requests against anticipated income before writing the recommended expenditures into law.

II

It is our sincere belief and conviction that the Hoover Commission on Organization of the Executive Branch of the Government has admirably and efficiently performed its duties and that its recommendations are basically sound in that they seek

1. to reduce expenditures to the lowest amount consistent with efficient performance;

2. to effect consolidation of services, activities and functions and thus eliminate duplications and overlappings;

3. to eliminate those services, activities and functions unnecessary to efficient government, and

4. to define and prescribe limitations of executive functions, activities and services. Since the recommendations of the Commission when made effective will all contribute to the conservation of our national economic and financial resources, we, therefore, give our unqualified endorsement of and support to the efforts of the Citizens Committee for the Hoover Report and do urge each of the members of this Association to actively support this Committee in its efforts to put into effect the recommendations of the Hoover Commission.

III

This Association and its members are unalterably opposed to the extension of a socialistic economy at the expense of destroying the roots and life of free enterprise from which our country has grown to strength and greatness. In recent reports on the Joint Congressional Committee on the President's Economic Report specific recommendations are noted which must inevitably lead to ever-increasing government regulation, control and eventual ownership of basic industries and resources of our country, and to the restriction of free markets and free enterprise. Recognizing that a continuance of these trends must surely jeopardize the soundness of the credit and financial structure of all business and governmental enterprises, this 54th Annual Credit Congress of the National Association of Credit Men petitions the Congress of the United States and its constituent members to reaffirm the principles of democracy and of private opportunity so firmly established by the founders of our nation and to firmly denounce and oppose the encroachments of the socialistic state.

IV

It is the studied judgment of this Credit Congress that existing financial institutions are fully capable of and quite willing to provide adequate finances for legitimate business risks, and that such businesses have not been handicapped by a lack of sources of funds, either equity or through loans. We, therefore, urge the Congress to restrict the expansion of government guaranteed loans either through the Reconstruction Finance Corporation as proposed in Senate Bill S 2947 or through the creation of new agencies as proposed in Senate Bill S 2975.

V

The introduction of the proposed 10% withholding tax on corporation dividends would add a heavy administrative expense burden upon all corporate businesses, would greatly add to the expense of government in administering the plan, and it would contribute materially to the dulling of the tax conscience of the public. We, therefore, petition the Congress of the United States to reject this proposed legislation.

VI

Recognizing the need for the expansion of commerce, we fully endorse the proposed legislation presented to Congress whereby the capital gains tax is to be reduced from 25% to 16% and the time reduced from six months to three months and petition Congress to make this legislation effective at an early date.

VII

Coming to California and to Los Angeles has been a rich and pleasing experience for all, due to the cordial hospitality and ever mindful concern for our comforts and welfare shown by the members, the officers and the staff of the Los Angeles Credit Managers' Association; therefore we express our most hearty appreciation, gratitude and thanks to President Fred A. Cates, to Executive Manager-Secretary A. D. Johnson, to their associates and to the members of the various committees of the Los Angeles Credit Managers' Association for all that has been done to make our stay so pleasant and profitable.

To the Hostess Committee and especially to Mrs. Fred A. Cates, Chairman, and her efficient Co-Chairman Mrs. Holden E. McManigal and Mrs. Arthur D. Johnson, we are deeply indebted for the gracious hospitality and the well planned entertainment afforded the wives and daughters of our delegates.

The co-operation of the Press has been splendid and we gladly express our thanks and fullest appreciation to all the Los Angeles papers, to the Associated Press, to the United Press, to the International News Service, to the excellent service of the Daily News Record of New York, and to other news media for so effectively bringing to the public the thoughts and actions of this Credit Congress.

To the management of the Biltmore, the Ambassador, the Clark, the Hayward and the Alexandria Hotels and to the University Club, we express our appreciation and extend our hearty thanks for the courteous and careful manner in which our many needs, wants and comforts have been fulfilled.

N. Y. Association Adopts New Name

New York: Adoption of a new name by the New York Credit Men's Association has been announced. Formal approval of the change which becomes effective July 1, 1950, was given at a special meeting of the officers and directors held May 25, and henceforth the more than half-century old Association will be officially called the New York Credit & Financial Management Association, Inc.

Approval of the proposal to change the name was overwhelmingly voted by the member representatives. Their vote upheld the expressed opinion of the Association's Board of Directors that the name change was required in order to give recognition to the close relation of credit and financial management in today's business.

Exporters Stage Luncheon, Round Table Conference

Los Angeles: Credit in the export field was far from forgotten at the 54th annual Credit Congress. On Wednesday all interested in foreign credit problems gathered in the Renaissance Room of the Biltmore for a luncheon and to hear a talk by Tom B. Coughran, vice president, Bank of America National Trust and Savings Association on Financing Trade with Japan. The full text of this talk appears elsewhere in this issue.

Following the luncheon the Foreign Credit Interchange Bureau, NACM, the Foreign Trade Association of Southern California and the World Trade Department, Los Angeles Chamber of Commerce joined in sponsoring a foreign credit, collection and exchange round table conference. Subjects covered during the conference included export volume and prices, market status of various countries, commission to foreign agents and representatives, cash discounts, bank and interest charges, terms, insurance and devaluation.

The panel consisted of: J. G. Allen, Plomb Tool Company; C. W. Bull, Security-First National Bank of Los Angeles; K. H. Campbell, Chamber of Commerce of the United States of America; O. L. Carlton, Central National Bank of Cleveland; George Curran, Bank of America National Trust & Savings Assn.; F. G. Emrick, Smith Welding Equipment Corporation; Fernando Figueroa, Farmers & Merchants National Bank; F. R. Frazer, Jantzen Knitting Mills, Inc.; A. E. Gotsch, the Studebaker Export Corporation; E. R. Gould, Jr., Clary Multiplier Corporation; J. C. Hajduk, Victor Chemical Works; L. C. Helfenberger, Union Bank & Trust Company of Los Angeles; Russ Jamieson, Otis, McAllister & Company; C. H. Johnson, Tobin Packing Company; W. N. Lawson, Medusa Portland Cement Company; J. F. Madden, Nicholson File Company; A. H. Mader, American Chicle Company; P. E. Pauly, U. S. Department of Commerce; Gustav Riedlin, California Bank; M. G. Shevchik, Elliot Company; E. B. Vickers, Link Belt Company; W. H. Watts, Ballard & Ballard Company; J. C. Wiesner, California Packing Corporation, and R. G. Zepeda, Valley National Bank.

Zebras Have Important Role as Receptionists at Los Angeles Meeting

The Royal Order of Zebras was quite prominent throughout the Los Angeles convention. This organization, established at the time of the previous Los Angeles convention in 1934, has spread to a number of other Associations and is now an active agent in promoting membership in N.A.C.M.

Under the leadership of Elmo Trimble, Super Zeb, the Zebras provided an honor guard that met all incoming trains, served as guides and otherwise proved generally useful to the visiting delegates throughout the convention.

The Zebras held their annual Roundup on Wednesday afternoon and a special dinner meeting for Zebras only in the Rainbow room at the Mayfair Hotel on Wednesday evening. At the Roundup reports were received from several Association cities where Zebra Herds may soon be established.

Delegates Vote On New By-Laws At Final Session

NINETY days from May 18, in other words on August 16, the National Association of Credit Men will have a new set of By-Laws which will take the place of the present Constitution and By-Laws. So the delegates voted during the final session of the 54th annual Credit Congress in Los Angeles.

These new by-laws are the result of much work by a committee headed by past president E. L. Blaine, Jr., Peoples National Bank of Washington, of Seattle. They have been the subject of much discussion, revision and re-revision for a long time and on the floor they came in for still more discussion and revision.

Three provisions of the by-laws as printed in the May issue of this publication were thrown out in the final voting: Article III, section 6, which called for redistricting the country into 12 instead of 10 districts; Article V, sections 2 and 3, which provided for 27 directors instead of the present 24, and Article VIII, section 2, which called for the annual election of nine directors instead of the present eight. The resolution which was passed adopting the new by-laws provided that "90 days from this date" (May 18) was to be the effective date.

ZEBRAS KICK THEIR HEELS

The Zebra roundup on Wednesday lived up to its advance billing. In the top picture the grand exalted superzeb addresses the throng while the more important stripers at the head table listen in. On the left are some typical specimens of this far from dying breed.

R. D. Roberts, Union Oil Co., whose election to the Los Angeles presidency was reported last month.

Election Time Is Here Again!

THIS is the time of elections and results are coming in thick and fast. To conserve space the names of the new incumbents are listed below in the shortest possible form, and in no particular order.

New York

(*re-elections*)

President—L. D. Duncan, National Distillers Products Corp.
1st vice-president—R. G. Woodbury, Textile Banking Co.
Vice-presidents—F. W. Zander, U. S. Plywood Corp., and E. W. Moon, Jr., Otis Elevator Co.
Treasurer—William F. Egelhofer, Henry Glass & Co.

Detroit

President—Albert A. Beste, Koenig Coal and Supply Co.
1st vice-president—Charles H. Fischer, Carboloy Co.
2nd vice-president—Harry J. Longeway, Michigan Steel Tube Products Co.
Treasurer—Rodkey Craighead, the Detroit Bank.

Rochester

President—W. LeRoy Jordan, Rochester Products Div., General Motors Corp.
Vice-president—Curtice G. Beardsley, Taylor Instrument Cos.
2nd vice-president—Claude H. Smith, Patent Cereals Co.
Treasurer—R. Lynn Galloway, Eastman Kodak Co.

Salt Lake City

President—Roscoe Grover, First Security Bank of Utah.
1st vice-president—Lawrence W. Mansell, Strevell-Patterson Hardware Co.
2nd vice-president — Lynwood Islaub, Farmers Grain Cooperative.
3rd vice-president—Kenneth H. Matheson, Tri-State Lumber Co.
Treasurer—Orson M. Rogers, ZCMI.

Wichita

President—A. H. Rhodes, S. A. Long Electric Co.
Vice-president—Carl E. Heller, Love Corrugated Box Co.

Milwaukee

President—Charles F. Jones, Marine National Exchange Bank.
Vice-president—Howard Hartman, L. J. Mueller Furnace Co.
Treasurer—T. C. Turner, Phoenix Hosiery Co.

Nashville

President—W. E. B. Harris.
1st vice-president—Walter G. Cottle.
2nd vice-president—T. D. Oxford.

Pittsburgh

(*re-elections*)

President—Ivan L. Hillman, Dravo Corp.
1st vice-president—J. S. Nichol, Harris Pump & Supply Co.
2nd vice-president—F. T. Menges, Fairmont Foods Co.
Treasurer—W. T. McCullough, Jr., W. T. McCullough Electric Co.

I. L. Hillman

Charlotte

President—Leslie J. Williams, Southern Bearings & Parts Co.
Vice-president—S. E. Callahan, Westinghouse Electric Supply Co.
Secretary-treasurer—J. W. Thomas, Jr., Mill Power Supply Co.
Councillor—D. G. Florance, Commercial National Bank.

Buffalo

President—Elveus F. Kieffer.
1st vice-president—John W. Livingston.
2nd vice-president—Frederic J. Zierk.

Baltimore

President—James F. Welsh, McCormick & Co., Inc.
Vice-presidents — Ryland G. Bristow, Lyon Conklin & Co., Inc., and George T. Brian, Jr., Noxzema Chemical Co.

Omaha

President—Clarence W. Gardiner, Merchants Biscuit Co.
1st vice-president—Norbert G. Bausch, Henry W. Miller Electric Co.
2nd vice-president—Erwin N. Solomon, First National Bank.

San Francisco

President—J. A. Walker, Standard Oil Co. of Calif.
1st vice-president—Walter J. Hempy, M. Seller Co.
2nd vice-president—B. F. Edwards, Jr., Bank of America, N. T. and S. A.
Treasurer—H. T. Kelley, Coast Envelope Co.

St. Louis

President—P. F. Buchert, Meyer Bros. Drug Co.
1st vice-president—Joseph G. Otte, Peter Hauptmann Tobacco Co.
2nd vice-president—William A. Pearl, Koochook Co., Inc.

Cleveland Chamber Recognizes Credit Association's Work

Cleveland: The Cleveland Association has been presented with a certificate of commendation by the Cleveland Chamber of Commerce in recognition of the association's 51 years of service to Cleveland industry. The presentation was made at a luncheon during which similar certificates were presented to over 300 firms which were still in business after 50 years, 147 of them members of the association.

Now a Bank V. P.

Chickamauga, Ga.: C. Callaway, Jr., retiring President of the National Association of Credit Men and Treasurer of Crystal Springs Bleachery, has been appointed Vice-President of the Bank of Chickamauga.

J. A. Walker

669 Membership Gain Reported; One Close Race

Los Angeles: A net gain of 669 in Association membership was reported by National Membership Chairman K. Calvin Sommer, Youngstown Sheet and Tube Co., at the closing session of the 54th annual Credit Congress. At convention time the membership stood at 30,749. Edwin B. Moran, manager, Central Division, NACM, and director of sales and promotion, presented the membership plaques to the winners in the various districts. The race in Class AA (over 900 members) was so close that the final winner, Chicago, nosed out the runner-up, Louisville, by only .05%, one twentieth of one percent. In the other six classes the result was fairly clear cut as will be seen from the tabulation below:

The leaders

Class AA	Net Gain	4-30-50 Members	Percent
Chicago	93	2119	104.59%
Louisville	47	1082	104.54
Indianapolis	18	963	101.90
Class A			
Boston	63	654	110.65%
Pittsburgh	65	824	108.56
St. Louis	34	900	103.92
Class B			
Denver	42	352	113.54%
San Diego	40	453	109.68
Grand Rapids	24	436	105.82
Class C			
Houston	61	263	130.19%
Syracuse	29	230	114.42
Toledo	14	220	106.79
Class D			
Columbus	19	130	177.11%
Green Bay	11	130	109.24
Bridgeport	9	111	108.82
Class E			
Nashville	28	76	158.33%
Cape Girardeau	21	63	150.00
Jacksonville	20	85	130.76
Class F			
Quincy	14	41	151.85%
Erie	8	28	140.00
Bluefield	5	24	126.31

Professor Gaumnitz Speaks at Oshkosh

Oshkosh: Professor Erwin A. Gaumnitz, assistant dean of the University of Wisconsin School of Commerce, was the principal speaker at the annual meeting of the Central Wisconsin Association of Credit Men May 24. He spoke on "Office Management and Credit Department Practice."

Elmer Garrison Dies; Had Managed Wichita Association 36 Years

Elmer Garrison, from a picture taken about twenty years ago.

Wichita: M. E. Garrison, secretary-manager of the Wichita Association of Credit Men for the past 36 years, died in Wesley Hospital May 10 after a short illness. He was 70 years old.

Mr. Garrison, who was born and educated in Illinois, moved to Wichita in 1910 when he established the Hauser-Garrison Dry Goods Co. He took over the managership of the Credit Association four years later. He was a charter member of the Rotary Club and was well known throughout the Wichita territory as a civic and church leader.

Mrs. Garrison, the former Julia H. Hauser, survives, also his son, Elmer, Jr., who has been associated with his father in Association work, two daughters, a sister, a brother and five grandchildren.

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Omaha: The credit women's group of Omaha announces a new slate of officers: Dorothea De Vries, Missouri Valley Machinery Co., president; Ann Yanick, Henry W. Miller Electric Co., vice-president; Margie Krakowski, F. R. Miller Feed Mills, secretary, and Lorraine Tunberg, Char-Gale Manufacturing Co.

Situations Wanted

738 Served in "Bowl" at General Industry Luncheon on Tuesday

As IS usual at NACM National Conventions the Industry Group Meetings on Tuesday drew wide interest among the large number of delegates from all sections of the country. A total of 28 industry groups met in various hotels throughout Los Angeles for active morning and afternoon sessions. The delegates assembled in the Biltmore Hotel Bowl for a general industry luncheon, a total of 738 being served in this mammoth restaurant arranged in amphitheater style.

The speaker at this general luncheon was Dr. J. Anton de Haas, Professor of International Relations at Claremont Men's College, California, and formerly professor in the same subject at Harvard University. While the luncheon in the Bowl provided a magnificent spectacle, the address by Dr. de Haas was criticized by many of the delegates as his proposal that Uncle Sam continue to be Santa Claus to Europe brought murmurs of dissent from many of the business executives present. Dr. de Haas questioned the immediate availability of the proposed tariff union as suggested by Paul S. Hoffman. He also warned that President Truman's Point Four is fraught with so many dangers that private capital will not undertake investment in most of the European countries.

At the conclusion of the luncheon most of the delegates returned to their conference rooms for a continuance of their designated programs.

New York NIC Chapter Commencement June 1

New York: The New York Chapter, National Institute of Credit, held its annual banquet and commencement at the Hotel Statler, June 1. Dr. Allen A. Stockdale, staff speaker of the National Association of Manufacturers, gave an inspiring talk on "Making America Sound."

Dr. Haake Addresses Grand Rapids Meeting

Grand Rapids: Approximately 400 business and professional men heard a talk by Dr. Alfred P. Haake, consultant and economist to General Motors in the Rowe Hotel May 16. The occasion was a joint meeting of the Grand Rapids Association of Credit Men, CPAs, women accountants, cost accountants, comptrollers, and the senior and junior chambers.

Conference held in Atlanta

Atlanta: A two-day conference on distribution was held May 18-19 at the Atlanta Division of the University of Georgia. Conference theme was "The Expanding Southern Market." The Georgia Association of Credit Men was one of the sponsoring organizations.

National Legislative Committee Faced Uphill Task in Last Year

THE status ot various bills of professional interest to credit executives was described during the 54th annual Credit Congress by Paul J. Viall, Chattanooga Medicine Co., chairman of the National Legislative Committee.

Of the 440 measures enacted into law during the first session of the 81st Congress only two were of special interest to the credit profession, the report stated. These were the Trade Agreements Extension Act of 1949, in favor of which a resolution was passed during the 1948 convention, and the Fair Labor Standards Amendments of 1949.

The second session has to date passed only one measure of interest to credit executives, Mr. Viall continued. This was the amendment of Section 60-a of the National Bankruptcy Act.

"The National Association of Credit Men had vigorously opposed the enactment of this amendment unless there be included in the Bankruptcy Act a requirement that notice of intent to assign accounts be recorded in a federal or state office, on the ground that, without such requirement, the amendment would validate secret liens to the disadvantage of unsecured creditors," the report added. "Unfortunately, House Bill H R. 2691, which contained a provision for the recording of intent to assign accounts receivable and which had been endorsed and supported by the NACM, was not favorably reported by the House Judiciary Committee."

The report covered other legislation pending before Congress in which credit executives have a professional interest. They include:

Tax Commission

H. R. 1838 (identical with H. R. 15 of the 80th Congress) provides for the establishment of a Commission on Tax Co-ordination in the United States. The provisions correspond in general to the recommendations contained in the resolution adopted August 20, 1944 by the Committee on Taxation of the NACM. Status: In House Committee on Ways and Means which has taken no action.

Absorption of Exchange

H. R. 494 (identical with H. R. 2316 of the 80th Congress) which has as its objective an amendment to the Federal Reserve Act to provide that the absorption of exchange and collection charges shall not be deemed payment of interest on deposits. This bill is identical with the so-called Maybank and Brown bills of the 78th Congress which were strongly opposed by the NACM and other organizations and which were defeated. The National Office is hopeful that this bill will not become active but, if it does, will initiate vigorous opposition by the NACM. Status: In House Committee on Banking and Currency which has taken no action.

Bankruptcy Act

H. R. 120 (identical with H. R. 5829 of the 80th Congress). A bill recommended by the National Bankruptcy Conference which provides for dischargeability of tax claims and for limitation of such claims to those within one year before bankruptcy. The National Legislative Committee of 1946-47 and the National Association at its 1947 and 1948 Credit Congresses approved in principle the provisions contained in H. R. 120. Hearings have not been held on this bill by the House Committee on the Judiciary.

H R. 3111. This bill comprises fifty printed pages of clarifying and perfecting amendments recommended by the National Bankruptcy Conferences which have been found necessary and desirable in the light of experience under the Chandler Act of June 22, 1938. The bill was favorably reported with minor amendments by the House Judiciary Committee on April 11, 1949, passed the House with minor amendments on June 6, 1949, and then was referred to the Senate Judiciary Committee.

A hearing on the bill by the Senate Judiciary Committee was held on Jan. 31, 1950 at which the NACM was represented by Mr. W. Randolph Montgomery, Counsel of the NACM and a member of the National Bankruptcy Conference. Also, Mr. Henry H. Heimann, Executive Manager of the NACM, wrote to the Chairman of the Senate Judiciary Committee urging that H. R. 3111 be reported promptly and favorably and that it be passed by the Senate. Although the bill had been considered noncontroversial by its proponents and by the House Judiciary Committee, at this hearing the Treasury Department and the Security Exchange Commission raised objections to certain provisions of the bill. Thereupon, the Chairman of the Committee considering the bill postponed further hearings thereon until March 17, 1950. Status: In Senate Committee on the Judiciary.

H. R. 6837. Introduced on January 18, 1950 by Mr. Byrne of New York to replace his previous bill H. R. 3971.

The purpose of this bill is to raise the ceilings on per annum salaries of full time referees in bankruptcy from $10,000 to $15,000 and of part time referees from $5,000 to $7,500. The bill gives the Judicial Conference of Senior Circuit Judges authority to fix the salaries of referees at not more than the amounts stated, provided that circumstances in each case justify an increase of salary. Status: In House Committee on the Judiciary which has taken no action.

In 1949 the increase of salaries of referees proposed in this bill was approved in principle by the National Board of Directors of the NACM in view of the inflated situation and the fact that such salaries come out of charges on bankruptcy cases and do not require an additional appropriation by the government.

S. 938. This is one of several bills introduced in the 81st Congress to deal with the subject of farmer-debtor relief. The purpose of the bill is to add to the Bankruptcy Act a new chapter XVI which would become a permanent part of the Act and would replace the presently existing section 75. Status; Passed Senate August 9, 1949; now in House Committee on the Judiciary which has taken no action.

Freight Absorption

S. 1008. This is the so called "Basing Point" bill the purpose of which is to legalize freight absorption, delivered prices and good faith competition, in the absence of conspiracy or other predatory practices.

This bill passed the Senate with amendments on June 1, 1949 and the House with amendments on July 7, 1949. Subsequently, two conference reports have been submitted by the House and Senate conferees. The second conference report was adopted by the House on March 14, 1950 and is now pending before the Senate.

Taxation

Hundreds of bills relating to taxation have been introduced during the 81st Congress, These bills cover practically the whole field of federal taxation provided for in the Internal Revenue Code. Only eleven of these bills have been enacted into public laws, none of which are considered of special professional interest to credit executives.

Since March 13, 1950, except during the House Easter recess from April 6th to 18th, the House Wavs and Means Committee has been holding executive sessions for the purpose of drafting a tax revision bill. News reports from Washington indicate that the following tax proposals are among those being considered by the Committee:

1. Reduction or repeal of excise taxes.
2. Increase in estate and gift taxes and corporate income taxes.
3. Requirement that corporations withhold a 10% tax from dividends of their stockholders in order to close "loopholes" in case of taxpayers who fail to report receipt of dividends. Those who report would receive a credit for tax withheld by corporations.
4. The so called "Mills" plan which would require corporations to pay their income taxes within six months after the taxable year instead of within one year as now required. This change would probably take place in stages. Taxes on 1949 income would be due in four installments by December 31, 1950. Taxes on 1950 income would be due in

three installments by September 30, 1951. Taxes on 1951 income would be due in two installments by June 30, 1952.

Social Security

H. R. 6000. This bill as passed by the House on October 5, 1949 consists of 201 printed pages of amendments to the present Social Security Act. It extends the old-age and survivors insurance from the approximately 35 million persons now covered to approximately 11 million additional persons and increases monthly benefits on an average of about 70 percent. The extended coverage will include: (1) Certain self-employed persons other than farmers; (2) Employees of non-profit institutions other than ministers; (3) Domestic servants not in a farm home; (4) State and local government employees; (5) Federal employees not under a retirement program; and (6) Miscellaneous coverage groups.

The total annual earnings on which old age and survivors benefits would be computed and contributions paid are raised from $3,000 to $3,600.

The following are the proposed new rate of contributions for both employer and employee: Year 1950—1½%; 1951—2%; 1960—2½%; 1965—3%; 1970—3¼%.

The bill is now being considered by the Senate Committee on Finance.

More than 12,000 bills and joint resolutions, which require the approval of both Houses and The President prior to enactment, have been introduced in the 81st Congress. About five hundred of these legislative measures have been enacted into public laws.

The Legislative Reorganization Act of 1946 provides that "Except in time of war or during a national emergency proclaimed by The President, the two Houses shall adjourn sine die not later than the last day (Sunday excepted) in the month of July in each year unless otherwise provided by the Congress." Because of this provision and the fact that 1950 is an election year for all representatives and about one-third of the senators, it appears probable that the 81st Congress will adjourn about July 31, 1950. All bills and joint resolutions not passed by the present Congress die upon final adjournment. However, they may be reintroduced in the 82nd Congress which will meet in January, 1951.

Regular sessions of legislatures were held during the current year in the following states: California, Kentucky, Louisiana, Massachusetts, Mississippi, New Jersey, New York, Rhode Island, South Carolina and Virginia. The National Office has received no report of the enactment of laws of special professional interest to credit executives in the states mentioned.

Par Clearance

On June 16, 1949, Wisconsin enacted a par clearance law similar to that of Iowa and Nebraska thereby removing 107 Wisconsin state banks from the non-par list.

There has been substantial progress of the Association's Par Clearance Program in recent years. On December 31, 1949 of the 14,051 banks in the United States 12,178 (86.6%) were on the Federal Reserve Par List. The number of non-par banks has decreased from 2,710 on December 31, 1942 to 1,873 on December 31, 1949, a reduction of 837 in seven years. Of the 48 states there now remain only 14 in which more than eight non-par banks exist.

The National Office publishes reports of the status and progress of the Association's par clearance program as of June 30th and December 31st of each year.

Handling of C.O.D. Shipments By Motor Carriers

In February, 1948, the Interstate Commerce Commission began hearings on, and an investigation into, the handling of C.O.D. shipments by motor carriers. Mr. S. J. Schneider, Secretary Manager of the Louisville Credit Men's Association, ably represented the National Association and its affiliates at the hearings. As a result of its investigation the Commission on November 25, 1949 prescribed rules and regulations, effective March 1, 1950, designed to correct the highly unsatisfactory C.O.D. situation which had resulted in substantial annual losses to shippers in all sections of the country. These rules and regulations were published in the January 1950 issue of CREDIT AND FINANCIAL MANAGEMENT.

Hoover Commission Report

The Citizens Committee for the Hoover Report estimates that during the First Session of the present Congress legislative and administrative measures were adopted which made effective about 20% of the recommendations of the Hoover Commission. Also, it estimates that if President Truman's 21 reorganization plans now pending before the 2nd Session were enacted in their entirety, they would make effective an additional 20% to 30% of the Commission's recommendations.

Uniform Commercial Code

The National Board of Directors, during its meeting in Chicago November 14-16, went on record as supporting the provisions of Article VII which calls for recording or filing of public notice of assignments of accounts receivable.

Horace Barnhart Passes Away

Austin: Horace Barnhart, secretary-manager of the Austin Wholesale Credit Men's Association since 1928 died May 10 after an illness of three months. He was also secretary of the Retail Merchants' Association and had performed outstanding service as acting trustee in bankruptcy many times.

He is survived by his widow, a son and a daughter. Mrs. Barnhart has assumed his duties.

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Detroit: Russell Barnes, foreign affairs commentator for the Detroit *News,* spoke on the Russia problem at the May meeting of the Detroit Association of Credit Men.

Detroit's New Prexy

Albert A. Beste

Koenig Coal & Supply Company's controller, who, as noted on page 42, has been elected president of the Detroit Association of Credit Men.

Financing Trade With Japan

(*Continued from page 14*)

yield to the pressure groups as we have done so many times in the past.

To the American business man who wants to do business with Japan I recommend that above all, he become thoroughly acquainted with the country, its people, its method of production and doing business, its products, and their qualities. This, in my opinion, suggests an on-the-ground study. Also, he should as rapidly as possible build up credit information on the people with whom he plans to do business and become prepared when necessary, to select those to whom he will be willing to extend credit. Japan, as a nation, stood near the top of the list credit-wise pre-war, but as in all other countries individual risks vary.

In conclusion, I repeat that Japan is in my opinion the brightest spot of major importance in the Far East today. The potential factors for an attractive volume of trade are there. The benefits will, I believe, accrue to those who are willing to learn the market, accept a reasonable margin of profit and meet the keen competition which is almost certain to develop.

What Cities Are on Standard Time?

Important Cities on Daylight Time	Important Cities on Standard Time
Boston	Dallas
Buffalo	Toledo
Seattle	Atlanta
Newark	Dayton
Chicago	Denver
St. Louis	Detroit
Montreal	Houston
Baltimore	Memphis
Cleveland	Columbus
Pittsburgh	Cincinnati
Philadelphia	Milwaukee
Indianapolis	Birmingham
Washington	Minneapolis
Los Angeles	Kansas City
San Francisco	New Orleans
New York City	Salt Lake City

Reorganization

(*Continued from Page 20*)

bling" processes of the agencies and their friends in the national organizations. Mr. Hoover had something to say about that just last month in New York. In a talk before the Sales Executive Club there, he recalled his first encounter with organized pressure when he made his first attempt at reorganization some 27 years ago. He met defeat then and later as have all Presidents of modern times.

GRANTING that the present program is off to a "brilliant start," Mr. Hoover warned that it is bogging down under the onslaught of "vested agencies and vested officials" aided by the "paid propagandists of the pressure groups."

"All the pressure groups have got in their work on the reform that would affect them, at the same time proclaiming their endorsement of all other reforms," he said. "How long the American citizen will take this pressure group action I do not know. But I do know that unless there is violent public reaction against them, this reorganization will go down to the same doom as all others over 40 years."

I suspect that Mr. Hoover will be "dropping the other shoe" before long. For in the same talk he said: "I shall not at this time name these groups nor describe their actions, but I promise you that before we fail I shall name them by name and describe them by the use of all the English language of which I am capable."

Mr. Hoover is a tolerant man but 27 years is a long time to wait for anything so sadly needed and so valid as federal reorganization. You will notice, however, that in the last analysis, he puts the issue squarely up to you and me and all the other citizens with a concern for the effectiveness and stability of the nation. The real root cause of wasteful government is civic indifference. The Congress can dawdle and the pressure groups can have their way only if a complacent public stands idly by.

HOW red are the corpuscles of our civic spirit? Can we and will we shake off the "leamies" in time? In the answer to these questions there is more than meets the eye. We are really facing up to a fundamental issue of freedom. Are we a self-governing people, in the tradition of our ancestors, or have we actually handed over the power to make national decisions of the first magnitude to a relative handful of bureaucrats, lobbyists, and propagandists in Washington? You may have noted that the Citizens Committee makes frequent use of the "cracker barrel" theme as a symbol of its objectives. In the days of our forefathers, not long ago, Americans sat down around the Cracker Barrel in the old-fashioned country store and talked out the problems of government in terms not of group interest, or pressure interest, but in terms of the national interest. In those days 90 per cent of all eligible voters took the trouble to go to the polls in the national elections. Today, as you know, barely over 50 per cent of us are even that interested in our government.

In the public reaction to the Hoover Commission's Report there is the promise of heartening reversal of this frightful trend. We are teaching citizens that they can vote every day of their lives by expressing themselves on the problems of government and taking an active hand in its management. We are learning that there is no limit to the progress that can be made if we think and act not as businessmen, not as farmers, not as members of trade unions or professions, nor as veterans, but as Americans.

If we are prepared to let this bright promise die, let us do so with our eyes wide open. There is something brand new, something dynamic, something precious about the Hoover Report. Never before was a reorganization plan conceived from such high motives. Never before was research conducted so thoroughly and so objectively by so many voluntary skilled specialists working solely for the nation's good. Never before was a Report so complete, so specific and so majestic, both in its viewpoint and its practicality, produced by so experienced and able a group of citizens.

Never before have we, as a people, had such an opportunity to establish, once and for all, a pattern of lasting good government.

Never again will we get the chance.

National Defense

(*Continued from Page 18*)

but the complete cooperation of all segments of our people—their enthusiastic support backed by a righteous sense of justice and a crusader's zeal to participate.

We of the Armed Services will continue to carry out the role assigned us in the attainment of these objectives. I am confident that you of the civilian economy will carry your part of the load. Mutual cooperation, collaboration, trust and loyalty are essential for the achievement of these goals. What we are seeking is worth fighting for. We must not fail—the stakes are too high. Pulling together we shall succeed.

What is the question?

(*Continued from page* 11)

can't observe an intention; you can only observe behavior and draw inferences, if you wish, about the intentions that motivated it.

Earmarks of intent to defraud are of course not easily recognizable. If they were, fraud would soon be obliterated. Nevertheless, some clews do give us warning signals that call for closer and more careful checking: loopholes in personal history, discrepancies between owner's story and verified information from other sources, past bankruptcies where the salvage was very low, spreading purchases, imitative trade styles and a number of other points to which more attention will be given in a later chapter.

Since those who set out deliberately to defraud are a relatively small group we may say that most debtors at the time they contract their debts do wish and intend to pay them.

BUT it is one thing to wish to do a thing and quite another to wish it strongly enough to work hard to bring it about. Indeed, it is this *degree of intensity* that concerns us.

For Smith may want to pay only as long as the money rolls easily into his cash register. At the first difficulty demanding closer application he may lose interest. Brown may want to pay, but the wish isn't strong enough to compete with extravagant demands made upon him by his family, or with his own desire to keep up with the Jones's, or to support an expensive program of entertaining, or drinking, or gambling, or whatever. Brown may want to pay up to the time he sees failure imminent, and then his wish to pay may be supplanted by a desire to save his own skin at the further expense of his creditors.

At the other extreme Jones' wish to pay may be so strong that difficulties only make him roll up his sleeves and work ten hours instead of eight. Or Seldom's sense of obligation to his creditors may be so strong that even after he has been discharged of his debts through bankrutpcy he will pay them of his own free will whenever he has the available funds.

Between these extremes we find all degrees of intensity of the wish to pay, all tempered by and closely integrated with the difficulty of paying—difficulties usually created by lack of effective method in meeting the problem of converting assets into cash at the required rate.

We are all prone to consider this question in absolute terms. "Either you are honest or you are dishonest," say the rigid draw-the-liners. "There are no in-betweens. If a man is honest he will pay with his last dime. If he doesn't he is dishonest."

HONESTY is a broad term. It involves behavior of many kinds besides that of paying bills and refraining from appropriating other people's property. Acts that are dishonest as measured by the standards of one person, or one group of persons, are not so by another set of standards. And the same man who will commit one act branded as dishonest by some general standard will scorn to commit another act so branded. He may steal $100 from his employer but never take a dime from a fellow employee. He might resist stealing $500 from a cash box but make no effort to return a purse he found with that much cash in it. Or he might rectify a mistake in change in his favor, but think nothing of listing a purely fictitious charity deduction on his income-tax return.

The trouble we get into when we talk about what a man *is* is that we expect his behavior never to deviate from some rigid standard. But no human being's adherence even to his own standards can be absolutely fixed. If there is an either-or choice between his standards and survival, survival is likely to win. Economic pressure is to a greater or lesser degree a threat to survival—so we frequently find economic pressure whittling down an individual's adherence to his standards.

We are less apt to involve ourselves in trouble if we stop trying to determine what those standards "are" (something inside Jones' skin, unobservable and not absolutely fixed) and start watching the trend of his behavior and the trend of the economic pressure that may influence that behavior.

This involves a study of

(1) Past payment record in the light of difficulties under which those payments were met;

(2) Failure record in the light of concurrent economic and trade difficulties;

(3) Past record of occupational persistence; (One who has frequently flitted from one project to another could be expected to permit a few obstacles to dissipate his intention to pay);

(4) Attention to business in rela-

tion to demands made by economic trend;

(5) Trend of personal and social activities.

If the account is accepted, continued observation of the influence of trend of the business on the business activity of Jones prevents our being caught asleep at the switch with a preconceived and erroneous notion of Jones' inflexible behavior.

WE HAVE said that it is one thing to want a thing and quite another to want it strongly enough to work hard to get it. But that still does not get it unless effective methods are used. And if the methods continue to be ineffective, sooner or later the attempt will be abandoned in spite of the wish.

The efficiency of Jones' methods can be objectively measured in three ways:

(1) By direct study of those methods in relation to industry practice;

(2) By study of successive balance sheets and operating statements compared to standards for the industry;

(3) By his payment record.

To summarize: John Jones cannot pay his bills without something with which to pay them. It is John Jones who must provide that something. He will not provide it unless he wants to, and wants to intensely enough to work persistently at it. And even then he cannot provide it unless he uses effective methods.

The Question

When we last stated our question involving wherewithal, we said, in effect, "If the factors involving liquidity continue their respective trends will this business have the cash to pay its bills for the next six months?"

We have shown that John Jones, dealing with the problems of his business, produced those trends. We know that future trend depends upon John Jones, dealing with the future problems of his business. Those problems will be posed by general economic and industry trends.

We can now state the problem of credit appraisal in its final form as we have evolved it—a question comprising three inter-dependent questions:

(1) *If* the factors enumerated below continue their respective *trends* as revealed by successive financial statements and paying records, is it probable that this business will have the necessary cash to retire its liabilities and expenses of all kinds for the next six months as they become due or within an average of thirty days thereafter?

(a) Amount and rate of conversion of trading assets	**In relation to**	**Maturing liabilities and expenses**
(b) Amount of working capital	**In relation to**	**Changing needs of the business**
(c) Increases or decreases in working capital	**Brought about by**	**Retained profits Withdrawals in excess of profits Losses Investment in Fixed Assets Long-term debt changes**

(2) If the answer to (1) is *yes,* can we expect Jones to maintain these favorable trends?

(3) If the answer to (1) is *no,* can we expect Jones to reverse the trends that contribute to that 'no' answer?

Both (2) and (3) are to be answered in the light of the trend of Jones' past persistence and method in relation to past problems; and in the light of industry and economic trends that will pose the new problems which Jones must meet.

Credit Abuses and Socialistic Trends

(Continued from page 7)

today is social service. There are so many people searching for ills to cure, for poverty to relieve, for incompetents to care for, that the competition for patients and clients who will accept free service (to be paid for by the Forgotten Man) is keener than that for those who will pay.

Much of this distintegration of moral fibre can be traced to the abuse of credit—to the competition between government leaders and private lenders for borrowers. The role of creditor and debtor has been reversed. It is the debtor who fixes the terms and who does the favor by borrowing.

The abandonment of reality, the decay of self-reliance, the high spending and soft living which have increasingly characterized this postwar period are seriously undermining the strength of our nation in a time of growing international tension and peril. It is not our military strength, not the strength of the armed services about which we should be most concerned, but rather the strength of the moral fibre and character of the average citizen. The military strength is only as great as the reserve strength in the spiritual and moral, as well as physical qualities of the people at home. We need to remember what happened in France in 1940.

WHAT can you do about it? What does the speaker suggest as a remedy? This, first of all: Face the facts and help to disseminate the truth about our present very critical situation. The truth is that this is not progress, prosperity and the addition of productive new wealth which is taking place in the U. S. today. Instead, this big spending spree and high consumption is being financed by liquidating or stealing away through inflation the real savings of all the people. Everyone who is living or expects to live on a fixed number of dollars of income is getting poorer each year.

The responsibility of the credit manager for straight-thinking, for straight-talking, and for defense of sound principles in these dangerous days, cannot be over-emphasized. The hour is very late and we should be using every opportunity to help awaken the people to our common peril.

PERIODICAL PRESS CORP., PHILA., PA.